

Axiom Consulting FiRST Technical Newsletter

Financial Reporting Specialist Team

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Note from the Editor, Tim Riddell



I would like to welcome everyone to the FiRST Technical Newsletter. The newsletter has been created as a way for the team to communicate with our clients, keeping you updated on what is happening at Axiom and the accounting market in general.

I joined Axiom in May 2007 as Managing Director of FiRST, and see the newsletter as a tangible sign of the positive changes taking place at Axiom. The focus at Axiom is the delivery of a quality service to our clients. My role is to develop and manage business in line with the needs of our clients and having previously been a client of Axiom I am well aware of the

pressures and demands placed on Managing Agents to meet reporting requirements in full and on time. These demands mean that our clients must have absolute confidence in our ability to deliver.

To continue to improve the quality of what we deliver to our clients we have launched a number of new initiatives:

- Introduction of a FiRST Technical Newsletter which will be produced every 6 months and more frequently if developments in financial reporting dictate
- Development of a comprehensive Client Support Matrix for all clients, providing full details of their dedicated Axiom resource and their back-up to ensure we provide for all possible operational risks should our staff not be available for any reason

- Launching a new Axiom website which provides a fresh approach and up to date information on Axiom and its services
- The provision of direct client access via a Citrix link into their data in Axiom's system
- The updating of our risk register and Operational Risk Management Policy to reflect the current needs of the business and regulatory environment in which we operate

Working in the Lloyd's market is both exciting and challenging. At Axiom we strive to take some of the pressures away from our clients by delivering a quality service and these initiatives are part of that process.

I hope you enjoy the first edition of our technical newsletter,

Kind regards,

Tim Riddell

Axiom Market Function: FiRST 25th Birthday Party

On the 29th of November, FiRST will be celebrating its 25th birthday with a party. Over these years FiRST has established itself as a leading supplier of specialist accounting and financial reporting services to the insurance market; supplying

services to:

- Over 30 Insurance Companies & Managing Agents
- Over 25% of active Lloyd's syndicates
- Over 60% of Lloyd's corporate names

*A date for your diary:
29th November 2007
FiRST Birthday Party*

IFRS or Not to IFRS—That is the Question!

Lloyd's has recently issued a consultation to the Market regarding the process of moving reporting under International Financial Reporting Standards (IFRS).

The outcome of the consultation will be used to guide the process of change. There are effectively three options being considered:

- Move to IFRS as soon as practicable (thought to be 2010 at the earliest)
- Change to IFRS at the same time that Solvency II is implemented (currently expected to be around 2012)
- Allow change to happen over time as GAAP comes into line with IFRS

In addition, there is an issue regarding the underwriting year accounts for mixed capacity syndicates and whether they should be included in any conversion to IFRS.

The consultation is the result of work by a

group formed by the LMA tasked with investigating a move to IFRS earlier than necessary, in order to be in line with other major insurers, against the extra resources that will be required in order to achieve the transition.

It is clear that IFRS will result in more complex accounts and the provision of information, some of which will not be easy to assemble. One area of difficulty may come from the need to make detailed disclosures on issues such as the degree of exposure to credit market and liquidity risks in the syndicates' investment portfolio.

There are a number of issues and uncertainties that are likely to make this a difficult decision for some Managing Agents. It is not clear how much the IFRS regime will diverge from US GAAP and this could give those agencies with American parents the headache of having to produce information on two different bases.

Similarly, as the IFRS treatment of insurance contracts has not been agreed, there may need to be a second stage to the conversion process to allow for any changes to the standard.

There is no doubt that having to produce accounts to varying different standards will increase costs and add to the pressure on staff and other resources. Achieving the "convergence" as painlessly as possible will be a major challenge for all those involved in syndicate accounting over the next 5 years.

The Market Bulletin (Y4047) includes an illustrative set of proforma accounts on an IFRS basis. The Corporation is looking for responses to its questionnaire by 28th September 2007.

Change Control Process

The criticism of the way in which Lloyd's implements changes to reporting has been recognized by the Corporation and this has been reflected in the newly adopted change control process.

This requires all prospective changes to reporting to go through a rigorous appraisal process. A business case has to be made for any changes and a formal request has to be submitted demonstrating how this will be achieved. This is assessed by an Impact Assessment Panel drawn from a number of departments within Lloyd's. It also has to be reviewed by the Lloyd's Reporting Liaison Group which is a sub-committee of the LMA comprising of representatives from Lloyd's and the Market.

If the case for change is agreed then the next stage is to go through a development process. This includes design by the system developers and testing through the User Acceptance Testing website.

Once the changes have been tested then they are included in the production website.

This means that there are various points where the case for making changes is tested and this should reduce the risk of continual minor tinkering of returns, which often causes a lot of extra work throughout the market for little obvious benefit.

Another innovation is that the process is open to any party to put forward proposals. Axiom have recently used this to propose reducing the reporting system to a core group of forms which are only put into the returns when necessary. This would reduce the number of form "entities" in the Lloyd's reporting system from over 300 to around 50 and ensure greater consistency of data.

This proposal has been accepted by the Lloyd's Reporting Liaison Group and is now going through the assessment process. We believe that it will make the whole reporting

system simpler and will reduce the instances of forms that are inconsistent between returns, as well as the number of resulting errors.

This would be a big step forward in moving to a true Core Market Returns system.

We hope the whole process will now be much more systematic and that the implementation of changes to reporting will be better planned and organised in the future. With the switch to the International Financial Reporting Standards (IFRS) on the horizon there will be plenty of challenges ahead for the new system.

Developments in the Capacity Market

It comes as a surprise to many people that Names, i.e. individuals with unlimited liability, are still to be found as participants on a number of syndicates. Increasingly, however, they are part of a more complex picture when looking at the structure of syndicates.

The first “conversion vehicles” allowing Names to convert to underwriting with limited liability were Scottish Limited Partnerships (SLPs). These were a mixed success, achieving the desired effect of limiting the potential liability but with some issues over how they operated.

These were followed by Namecos, limited liability companies created specifically to underwrite at Lloyd’s. Once again, these enabled individuals to convert their underwriting to a limited liability basis. Whilst more straightforward to operate than SLPs, they also have some drawbacks such as the use of losses for tax purposes, and uncertainty over the exit route for the owners.

Now a new vehicle has come into existence for the 2007 underwriting year, in the form of Limited Liability Partnerships (LLPs). Whilst these have existed for some time, they have only been given the go ahead by the FSA to be used as Lloyd’s vehicles from 2007.

LLPs are required to have at least three “Members” i.e. partners of whom two must be “designated Members” with powers to deal with the legal requirements that are in place for LLPs. In most cases one of the designated members (who can be companies) will be the scheme administrators.

Axiom Launch Cat5

With the 2007 hurricane season under way and the recent floods in both Australia and the UK, catastrophe management is top of the reinsurance agenda. As a result Axiom has launched Cat5, a new claims management service for the reinsurance market.

Cat5 provides an instant, scalable claims management service to allow reinsurers to respond effectively and proactively

LLPs act in very similar ways to Namecos, having to comply with Schedule 9A of the Companies Act when preparing their accounts and enjoying legal status. Unlike Namecos, however, they do not own directly any assets such as the capacity on the syndicates on which the LLPs participate, or Funds at Lloyd’s. These are owned by the Members on the basis set out in the Members Agreement and any profits on disposal will count as gains for the Members which will allow them to use the allowances available to individuals.

The differences come in the tax treatment of the participators. Income of the LLPs will be assessed on the individual Members as if it was their own income, rather than as investors in a company. Thus, losses will be available for offset against other income and the trading profits count as Net Relevant Earnings for pension purposes.

LLPs will, therefore, give their members much the same tax position as individual Names with unlimited liability, but with much less exposure to losses. The issue of exit remains as the LLPs can only be wound up on a similar basis to a company or sold on. They cannot just be dissolved like a normal partnership.

Lloyd’s is still seen as a worthwhile, if high risk, investment by many individuals. So long as sufficient syndicates remain which use mixed capital for their base, and Lloyd’s continue to permit syndicates to operate on this basis, then all these vehicles will continue to exist. It is likely, however, that most the new limited liability support for syndicates will come from LLPs because of their simpler structure and tax advantages.

In the wake of a major catastrophe.

Mark Sullivan, Head of Claims, Axiom, says

“Cat5 provides underwriters with a planned approach to the management of catastrophe claims and enables them to deliver a world class standard of service under the most demanding of circumstances”.

Axiom Launch New Website

Axiom is proud to announce that September will mark the launch of our new website.

The team have been working very hard in producing a website that not only visually reflects the growth strategies of Axiom, but is an useful information source for our Clients and contacts.

The website will also mark the launch of the new Axiom design concept, which is also reflected in the FiRST technical newsletter. These visible changes which are occurring within Axiom, reflects the strengthening of Axiom's core values and expansion to meet the needs of our clients.

www.axiomcc.com

Axiom are insurance and reinsurance support specialists. We advise on and manage business processes and exposures for the Lloyd's market, insurers, reinsurers, brokers and start-ups. Through our three business units of Technical, Consulting and Financial Reporting Services (FiRST) we provide expertise that can strengthen the brand and bottom line of any company operating in the insurance market.

We are an independent international company with international clients. We have over 200 dedicated professionals based in our London headquarters and our offices in Tokyo and Sydney. We deliver bespoke solutions that are reliable, innovative and cost effective and can be deployed as part of a client's internal team or alternatively by way of an outsourcing arrangement.



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