

# Lloyd's Members Agency Services Limited

Our ref: LMAS/JAM/«MEMBER\_CODE»

18 December 2008

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## MEMORANDUM

### SYNDICATE 138

#### 2000 AND 2001 RUN-OFF YEARS OF ACCOUNT

I enclose, for your information, a copy of the letter I have received from the managing agent of Syndicate 138 advising of the intention to close the above years of account at 31<sup>st</sup> December 2008.

You will note that the managing agent proposes to accept a quotation by the Meacock Syndicate which is likely to produce a release of 3% and 14% in respect of the 2000 and 2001 year of account respectively. I enclose a schedule detailing your involvement in the above syndicate's run-off years of account and the effect of the release described above. I should emphasise at this juncture that the release figures are based on the results at 30<sup>th</sup> September 2008 and of course could be subject to change once the final result at 31<sup>st</sup> December 2008 is determined.

I hope the enclosures are helpful but if you have any questions to raise I will do my best to answer them for you.

«LetterName»

Encs.

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15<sup>th</sup> December 2008

Cliff Talbot Esq  
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Fidentia House  
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Dear Cliff

Syndicate 138 – Reinsurance to Close

Following the meeting with members' agents on 10<sup>th</sup> December 2008, I am writing to set out the Board's intentions with regard to the closure of all the open years of account of this syndicate.

Earlier this year, the 138 Board sought the views of members' agents and the corporate member with regard to the possibility of seeking an RITC as at 31<sup>st</sup> December 2008. Although the responses the Board received were not conclusive, the Board took the view that an approach to the market should be made as it appeared that there were a number of entities interested in writing RITCs and it might therefore possible to secure an attractive quote this year.

In view of the potential and perceived conflicts of interest of some Board members, the Board decided that it should use a third party to manage the administration of the process of seeking an RITC quotation. Various options were considered and the Board appointed the consultancy arm of EMB, which offered to fulfil the role for a fixed fee of £75k. The EMB team was led by Rory O'Brien, a partner in the firm.

Initially, some 14 RITC providers were approached. EMB established an electronic data room and contenders were asked to provide indicative quotations on the basis of the reserves as at 30<sup>th</sup> June 2008. Some eleven indicative quotes were received and a shortlist of four RITC providers was asked to produce final quotes on the basis of the figures as at 30<sup>th</sup> September 2008 by 2<sup>nd</sup> December. Throughout the process, there was no direct contact between Board members or staff involved in the day to day work through our outsource contract with Whittington Capital Management, without the supervision of the EMB team. The EMB team ensured that all potential bidders had the same information and where questions were raised, the responses were placed in the data room for all the RITC providers to see, without any indication of the entity from which the query had arisen. RITC providers were asked to provide quotes in original currency by year of account to avoid any possibility of one year of account being favoured over another.

As a result of this exercise, the Board received and considered two competitive quotes and has decided to proceed with that offered by the Meacock syndicate whereby the three years of account are closed in accordance with the quotation received, as this appears to the Board to be the most attractive option for all syndicate members.

The actual quotation accepted by the Board is difficult to understand out of context as the impact on Names has to be adjusted for the releases from reserves made earlier in the year and the cash calls made on the various years of account.

However, at present, the Board's best estimate of the impact on Names is as follows:-

2000 year of account – a RELEASE of 3%  
2001 year of account – a RELEASE of 14%

There are some issues which still need to be resolved before the figures become final. There will need to be an adjustment for any major claims movements between 30<sup>th</sup> September and the year end, although, to date, there have been none. In addition, although the Board has taken steps to eliminate the risk in the investment portfolio of the syndicate by investing all the funds in cash or treasury bills, there is still a possibility of further movement before the year end. For the purposes of estimating the impact on Names, we have used a US\$ to £ exchange rate of 1.55, but, of course, we do not know what the rate will be at the year end. We also need to accrue for some expenses relating to the 2008 calendar year, which will not be paid until 2009. Nevertheless, we would not expect the impact on Names to deteriorate significantly from the figures set out above.

The contract has yet to be signed, but assuming that all proceeds well, the RITC will be incorporated into the syndicate accounts as at 31<sup>st</sup> December 2008 and these will be the final accounts for the syndicate. As soon as we are in a position to provide final figures, we will hold a further meeting of members' agents. At present, we would expect this meeting to be in late January or early February. We will be working closely with the Meacock team to complete this transaction as quickly as possible.

However, the 138 Board has assured Lloyd's and Meacock that it will remain in place for a sufficient time after the year end to finalise the syndicate accounts and ensure an orderly handover of the account.

Grafton Group, which, through the corporate member, owns approximately two thirds of the reserves for the three open years (100% of the 2002 year of account) has been advised of the Board's decision to accept the Meacock quotation and has confirmed its support.

As it is the managing agent's responsibility to determine whether or not to close a syndicate, we are not proposing a consultation with syndicate members or members' agents. However, the Board is firmly of the view that the Meacock quotation for the RITC offers an attractive and timely exit for syndicate members.

With best wishes

Yours sincerely



Mark Jephcott  
Managing Director on behalf of the Board of Syndicate 138