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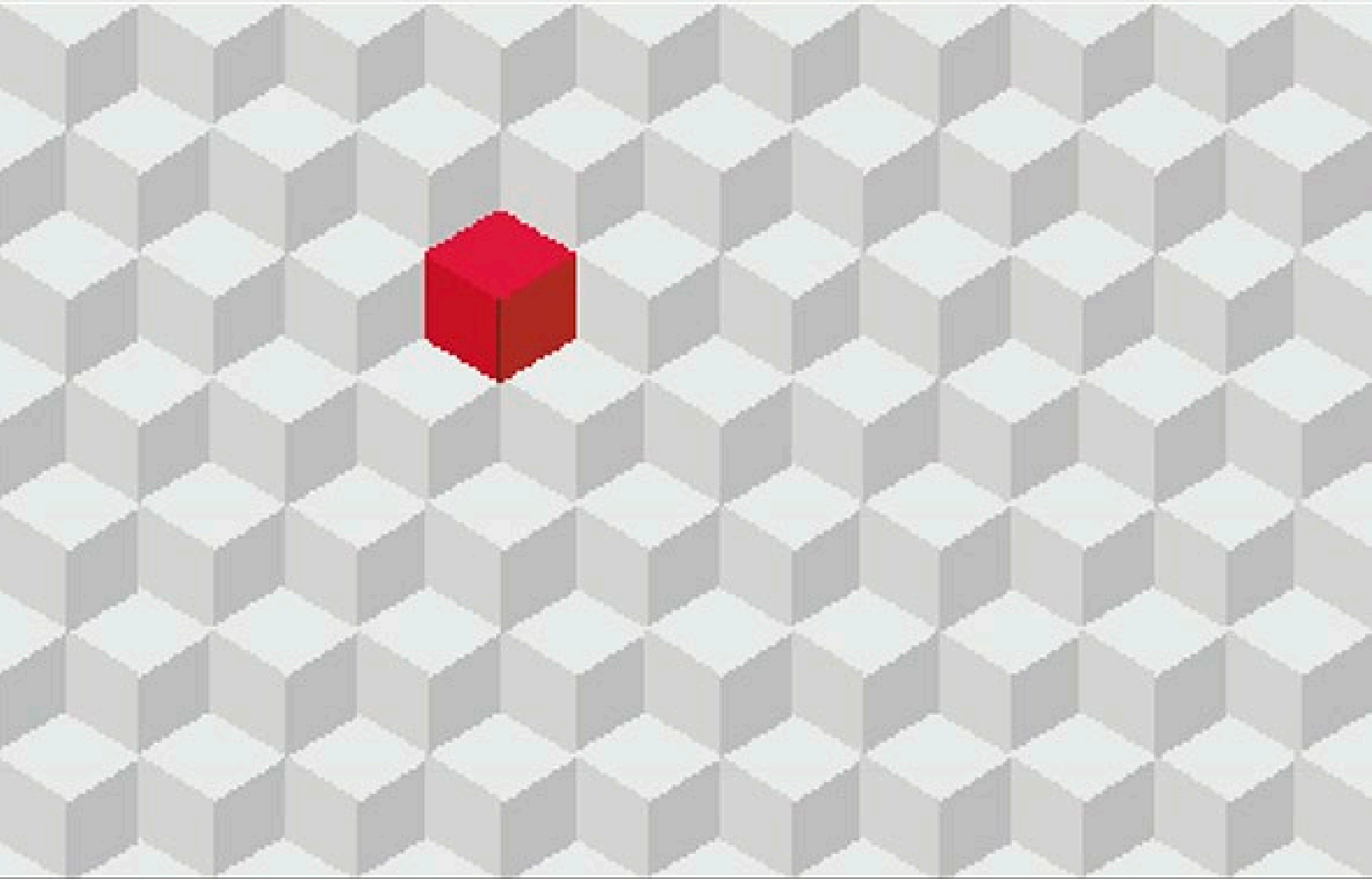

FDO Best Practice Guidance for the use of 'false' FDOs in the Lloyd's Market

Contents

For many years now 'false' FDOs have been used in the Lloyd's market as a way to group together related claims and allow them to be processed via ECF. This document is designed to give brokers and managing agents some guidance as to when FDOs can and cannot be used.

The guidance begins with a checklist for easy reference, and includes FAQs.

1. FDO Checklist

A. In any situation, the following must be consistent on each relevant premium signing in order to process an FDO:

- UMR
- Risk Code
- Year of Account

A single FDO should be used per risk code. Please note that if there are underwriters on separate years of account for the same risk then it is not possible to put the claim on ECF.

B. Multi-jurisdiction Policies

Can be signed under one FDO provided:

- The list at 1) is consistent (NB, different FIL code for each jurisdiction);
- The market is the same (with the same signed lines) for each jurisdiction; and
- There will be a separate premium number(s) for each jurisdiction.

or, under a separate FDO for each jurisdiction if:

- The list at 1) is consistent; and
- The market differs across jurisdictions

C. Multiple Reinsureds

Can be signed under an FDO provided:

- The list at 1) is consistent;
- Each reinsured is domiciled in the same country; and
- The market is consistent across all reinsureds
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Exceptional Circumstances

D. Combined Open Market and Lineslip

It is possible to sign an FDO on these accounts, however, they are so varied in nature they should be dealt with on a case by case basis. Leaders, brokers & Xchanging should liaise in these cases.

E. Split Inception Dates

Whereas it is technically possible to sign FDO's for these accounts, it is highly complex. It is not possible to sign a single FDO for the entire policy period. A separate FDO will be required, at each point the market changes (for which there is a claim)

F. Cases where a single FDO cannot be assigned:

Direct and reinsurance on one slip where the market differs
Insurers on one risk using varying SIRs

N.B. If separate OSN&D have been allocated for FIL purposes only (in other words, the market, risk code, UMR and year of account are consistent on each OSN&D) an FDO is not required and it would be down to the broker to allocate each claim under the correct OSN&D. For example, if separate OSN&D are allocated to French, German, and Spanish registered aircraft, the total loss of a German registered aircraft would be collected against the OSN&D under which premium for German registered aircraft was paid, whilst damage to a French aircraft would be collected separately against the OS&D under which premium for French registered aircraft was paid.

The claims cannot be combined because separate FIL apply.

2. Frequently asked questions:

2.1 Abbreviations used in this document

OSNAD – Original Signing Number and Date – allocated to all premium and FDO signings by XIS.

FIL Code – Foreign Insurance Legislation code – allocated by XIS and XCS based on Lloyd's instructions

YOA – Year of Account – determined based on the principles of Inception Date Allocation

SIR – Self insured retention

UMR – Unique market reference

FDO – For declaration only

2.2 At what point in time should a claims FDO be signed?

An FDO can be signed either as and when claims become known, or simultaneously with the premium signings, whichever is felt more appropriate.

For cases where an FDO has not been signed at the time of premium signings, the broker will need to liaise urgently with Xchanging.

2.3 For what type or size of accounts should claims FDOs be signed?

As the aim is to transact as much as possible electronically rather than via paper, an FDO should be signed if possible, regardless of the size of the account.

Use of a slip provision would allow brokers and underwriters to negotiate, and to limit use of claims FDOs if they don't feel they would be appropriate however.

2.4 Does the slip need to contain a provision for XIS to sign a claims FDO?

This is current practice. Continuation with this requirement would allow underwriters to remain in control of when claims FDOs are used.

Where no slip provision exists, inclusion of the following paragraph is recommended:

'Insurers agree to allow the broker to request that XIS can either set up a claims FDOs showing the full market hereon, as and when claims become known, or simultaneously with the premium signings, whichever is applicable. No further agreement from insurers or XCS needs to be obtained when this request is made. Where non-bulking lineslip security participates, it is agreed that signed lines relating thereto may be adjusted on the claims FDO(s) to reflect the order placed under the non-bulking lineslip.'

2.5 Is it correct that the UMR won't match?

After consultation with Lloyd's key MI users, the conclusion was reached that it is essential that claims are processed against the same UMR as the premium to which they relate.

There are scenarios however where security from slips with different UMRs might be combined under a claims FDO(s).Each lineslip will have its own lineslip UMR. For bulked accounting lineslips it is normal practice for all premium, AP, RP and claims relating to declarations off of that lineslip to be processed under a common UMR. However, for non-bulking lineslips it is already market practice for declarations to be processed under their own individual UMRs, unconnected

with the lineslip UMR. Where different terms are agreed by open market security on the same risk, it is the practice of some brokers to place separately under different UMRs.

It is therefore strongly recommended that claims FDOs only be set up where open market and/or non-bulking lineslip security participates in the same risk only where that risk uses a **common UMR** for all the security. Bulking lineslip and binding authority security, which will have received premium under the lineslip or binding authority UMR, can not be combined with open market and/or non-bulking lineslip security which received premium under a different UMR. Furthermore, where open market security is placed on different terms under different UMRs, and received premium under those different UMRs, the security on those UMRs can not be combined under a single claims FDO (MRC guidelines explain how different terms can be placed under a single UMR).

2.6 Can signed lines on the claims FDO differ from those on the OSNAD under which premium was paid?

In most cases, brokers will sign lines for different securities on the same risk consistently (signed lines will be percentages of whole or of order, not a mixture of the two), but there may be cases where non-bulking lineslip security is signed differently from open market security on the same UMR.

Therefore, if:

- 50% placed on a non-bulking lineslip, applied as order. Lineslip signed with lines totalling 100%, say Synd 1 50% and Synd 2 50%
- 50% placed open market. Lines signed of whole totalling 50%, say Synd 3 50%
- To produce a set of lines for both non-bulking lineslip and open market security, a set of lines totalling 100% must be produced – Synd 1 25%, Synd 2 25%, and Synd 3 50%.

2.7 On multi-jurisdictional contracts how can claims brokers and XCS identify the OSNAD applicable to the claim?

As above, whilst use of FIL coding for reporting purposes allows some flexibility, it is strongly recommended that claims are associated with the OSNAD with which they share FIL code(s).

In the paper world, LPO208's are used to show the premium for each LPAN and the territories to which they related. LPSO/XIS printed the relevant OSNAD on each LPO208. Brokers could then determine which OSNAD related to which territory.

However, another method of replicating what was provided by LPO208s is to use the FIL code shown in the IMR:

Original Signing Information

Signing Number & Date	Bureau	Slip Type	Entry Type	Risk Code	DTI Code	FIL Code	Country	Currency	Status	Actions	
2113503/09/2012	Lloyd's	01	NPM	P3	8	UKB1		GBP	NEW	View Work Package	View Markets
2113603/09/2012	Lloyd's	01	NPM	P3	8	UKB1		GBP	NEW	View Work Package	View Markets
2113703/09/2012	Lloyd's	03	NPM	P3	8	CZE1		GBP	NEW	View Work Package	View Markets
2113803/09/2012	Lloyd's	03	NPM	P3	8	DKB1		GBP	NEW	View Work Package	View Markets
2113903/09/2012	Lloyd's	03	NPM	P3	8	FRK1		GBP	NEW	View Work Package	View Markets

More >>

XIS publishes a list of FIL codes on the Knowledgebase at:

https://insuranceportal.xchanging.com/cms/main/menu/1%20-%20Technical%20Information/FIL%20Codes

Both XCS, and brokers who have access thereto, should also be able to use FIL code information from Account Enquiry for the same purpose.

2.8 On multi-jurisdictional contracts how can claims brokers and XCS confirm that premium has been paid for the part of the risk to which the claim relates?

As above, it is suggested that use of FIL code should enable brokers and XCS to locate the portion of risk to which the claim relates. Account Enquiry shows whether premium has been settled or not.