THE TIME AND DISTANCE PROGRAMME OF THE GOODA WALKER SYNDICATES

RANDALL INSURANCE SERVICES LTD

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A. INTRODUCTION

A1. This Report has been prepared by Randall Insurance Services Limited ("RISL") for the directors of G.W. Run-Off Limited ("GWRO") and their legal advisers in the circumstances described in Section C.

A2. The Report presents the findings of our investigation into the time and distance reinsurance programme operated by Gooda Walker Limited ("GWL") and Gooda and Partners Limited ("GPL"), the Managing Agents of Syndicates 164, 290, 295, 296, 298/222, 299/297, 387 and 514. The scope and conduct of our investigation are more fully described in Section D of this Report. For the sake of convenience, a list of the main parties referred to in this Report and a definition of some of the specialist terms used are set out in Section B.

A3. Relevant extracts of the Report were circulated in draft to (i) certain of the former directors of GWL, (ii) Littlejohn Frazer, (iii) Heaths, (iv) Willis Coroon Plc, (v) Pinnacle, (vi) Citibank and (vii) S.A. Meacock & Co. Each party was asked to verify the contents of the relevant parts of the draft Report and to comment on our findings. Where appropriate, the final Report reflects their responses.

A4. As will be evident, the Gooda Walker time and distance programme remains in force and new issues are emerging from time to time.

A5. Furthermore, at a very late stage in our investigation, we became aware that the reported results of some of the Gooda Walker syndicates (especially Syndicates 290 and 295) were affected possibly from the late 1960's by the use of so-called "rollover" policies. We have also discovered a number of inter-syndicate stop loss and unusual quota share reinsurance policies. We have been instructed to investigate all such policies because they may also have obscured the true results of the Gooda Walker syndicates.

B. DEFINITIONS

B1. Parties

City Run-Off Limited ("CRO")	The company retained by GWRO to administer on a day to day basis the run-off of syndicates formerly under the management of GWL.
Ernst & Young ("E&Y")	The joint auditors of the Gooda Walker syndicates as at 31st December 1991.
Golding Stewart Wrightson Limited ("GSW")	Lloyd's brokers (formerly known as Golding Collins Limited and now a subsidiary of Willis Corroon Plc) who were until 1987 retained by GWL to place many of the time and distance policies on behalf of the Gooda Walker syndicates and who in most cases were replaced as brokers of record by Heaths with effect from 1987.
Gooda Group Investment Services Limited ("GGISL")	An investment management company established in 1979 which provided investment management services to syndicates managed by GWL and which ceased trading on 31st December 1989.
The Gooda Walker Group	Gooda Walker Holdings Limited ("GWHL") and its associated and subsidiary companies.
Gooda Walker Limited ("GWL") and Gooda & Partners Limited ("GPL")	The Managing Agents of Syndicates 164, 290, 295, 296, 298/222, 299/297, 387 and 514 ("the Gooda Walker syndicates") which were responsible for the purchase of all time and distance policies referred to in this Report.
G.W. Run-Off Limited ("GWRO")	The substitute Managing Agent appointed by the Council of Lloyd's on 10th October 1991 which is charged with the management of the run-off of the Gooda Walker syndicates.
Andrew Goodier	An employee of GSW and subsequently Heaths at the material times who was

	primarily responsible for liaising between GWL and its reinsurers for the purpose of placing many of the time and distance reinsurances.
The C.E. Heath Group	C.E. Heath Plc and its subsidiary and associated companies.
Heaths	The insurance broking companies within the C.E. Heath Group, some of which acted as brokers for GWL and GPL in the placing of time and distance policies.
David Jewell	The temporary active underwriter of Syndicate 298 from late 1989 until August 1990 but not responsible for signing the 1988 syndicate accounts, the active underwriter of Syndicate 299 from 1990 and the Chairman of GWL from April 1991 until its liquidation on 4th October 1991, and now an employee of CRO.
Edward Judd	The active underwriter of Syndicate 164 from 1980 and a director of GWL at all material times.
Littlejohn Frazer ("the Syndicate Auditors")	The sole auditors of the Gooda Walker syndicates up to (and including) the year ended 31st December 1990 and joint auditors for the year ended 31st December 1991.
Hugo Pilch	A director of GWL and of GGISL at all material times and the Managing Director of GWL between March and June 1991.
Pinnacle Reinsurance Company Limited ("Pinnacle")	A company incorporated in Bermuda specialising in the writing of time and distance policies and which was a subsidiary of C.E. Heath Plc at all material times. The business of Pinnacle was sold by Heaths in November 1991 for a cash consideration of $63.7m.
Randall Insurance Services Limited ("RISL")	An insurance consultancy retained by GWRO to provide certain management services on its behalf and to undertake various investigations into the activities of

	GWL and its managed syndicates in conjunction with legal advisers instructed by GWRO.
Hugh Robertson	The claims manager of Syndicates 164 and 290 at all material times and a director of GWL from 1986.
Louise Rook	An employee of Heaths who appears to have been responsible for the day to day administration of many of the time and distance policies on behalf of the Gooda Walker syndicates.
Eugene Ryan	The active underwriter of Syndicate 295 from 1987 to 1991 and a director of GWL at all material times.
Derek Walker	The active underwriter of Syndicate 295 from 1966 to 1986, the active underwriter of Syndicate 164 from 1977 to 1980, and at all material times the active underwriter of Syndicates 387 and 290 and a director of GWL.
Stan Andrews	The active underwriter of Syndicate 298 from 1983 to December 1989 and a director of G&P at all material times.

B2. <u>Terms</u>

"<u>AP</u>"

B2.1 Additional Premium: a payment by a reinsured to its reinsurer usually as consideration for (i) a variation of policy terms or (ii) an adjustment premium where the final premium is determined by reference to contingent events. Where the initial premium is fixed and there is no alteration of the risk, an "AP" is not normally required.

"<u>Commutation</u>"

B2.2 An agreement between a reinsured and its reinsurer to bring to an end all future obligations which may arise under a contract of reinsurance. A commutation often involves a payment by the reinsurer to its reinsured as consideration for such an agreement. In the case of financial reinsurance such as time and distance policies (see Section E), the policy frequently defines the terms for early commutation of the reinsurance. Absent such specific terms, commutation will be the subject of negotiation between reinsured and reinsurer at the time, which may put a financially distressed reinsured at a commercial disadvantage.

"<u>EFL</u>"

B2.3 Estimated Future Losses (or Liabilities): an estimate of future claims which the reinsurer will be required to pay on a particular contract of reinsurance (or portfolio of business).

"<u>IBNR</u>"

B2.4 Claims which are Incurred But Not Reported. The calculation of this figure requires the exercise of judgment by the underwriter taking into account various factors such as:

(a) The business written by the syndicate including the following:

- (i) the likely claims settlement pattern;
- (ii) the nature of business accepted;
- (iii) the method of accepting business;
- (iv) the geographical location of risks; and
- (v) the currency in which risks are denominated.

(b) Loss experience to date; and

(c) Reinsurance protection available.

"In-Account Policy"

B2.5 A time and distance policy purchased for a specific year of account, with recoveries scheduled to be credited to that same year prior to computing the RITC for that year.

"LATF"

B2.6 Lloyd's American Trust Fund.

"LOC"

B2.7 Letter of Credit: a written undertaking by a bank to another person to make a payment up to a stated amount on the satisfaction of stipulated conditions. (Used as an alternative to an SFA - see below).

"LPSO"

B2.8 Lloyd's Policy Signing Office.

"OCA"

B2.9 Outstanding Claims Advance: a provision in certain reinsurance policies which enables a reinsured to make an advance recovery in respect of advised (but unpaid) claims. Such advances are normally repayable by way of set-off against future paid claims.

"RITC"

B2.10 A Reinsurance to Close means an agreement under which underwriting members ("the reinsured members") of a syndicate for a year of account ("the closing year") agree with underwriting members who comprise that or another syndicate for a later year of account ("the reinsuring members") that the reinsuring members will indemnify the reinsured members against all known and unknown liabilities of the reinsured members arising out of insurance business written through that syndicate and allocated to the closing year, in consideration of:

(i) a premium; and

(ii) the assignment to the reinsuring members of all the rights of the reinsured members arising out of or in connection with that insurance business (including without limitation the right to receive all future premiums, recoveries and other monies receivable in connection with that insurance business).

"<u>SFA</u>"

B2.11 Security Fund Agreement: an agreement between a reinsured, its reinsurer and a custodian (normally a bank) whereby the reinsurer deposits securities with the custodian to secure future payments due by the reinsurer to the reinsured. (Used as an alternative to an LOC - see above).

C. **BACKGROUND**

C1. The Gooda Walker Group

There is attached at Appendix 1 an extract from Chapter 3 of the Report of the Gooda Walker Loss Review Committee. This sets out the history of the Gooda Walker Group, its constituent companies and the syndicates under its management.

C2. G.W. Run-Off Limited

C2.1 GWL went into voluntary liquidation on 4th October 1991, when its shareholders passed an Extraordinary Resolution to wind up the company. With the liquidation of GWL, it was necessary for a substitute Managing Agent to be appointed to manage the Gooda Walker syndicates, since all Lloyd's syndicates are required to be managed by a Lloyd's Managing Agent.

C2.2 On 10th October 1991, the Council of Lloyd's appointed GWRO to be the substitute Managing Agent of the Gooda Walker syndicates pursuant to Lloyd's Substitute Agents Bye-Law (No. 20 of 1983). Copies of the Substitute Agents Bye-Law and of the Council's Directions dated 10th October 1991 are set out in Appendix 2. A further resolution dated 12th February 1993 extended GWRO's responsibilities to Syndicate 514.

C2.3 Each of the original directors of GWRO holds one share in GWRO. It is not anticipated that the directors will receive any benefit on the eventual disposal of their holdings in GWRO. The Society of Lloyd's has provided indemnities to GWRO and its directors (see Appendix 3).

C3. City Run-Off Limited

C3.1 In October 1991, GWRO engaged CRO, a newly-formed subsidiary of the Bankside group of companies, to administer the day-to-day run-off of the business of the Gooda Walker syndicates. The agreement between GWRO and CRO is renewable in June 1994.

C3.2 CRO has employed a number of former GWL staff to carry out its responsibilities under the agreement and in addition it has recruited staff from other members of the Bankside group and externally.

C4. Randall Insurance Services Limited

C4.1 On 30th December 1991, the directors of GWRO retained Mr Randall, then trading as "Randall Insurance Services", to provide them with management assistance in relation to the run-off of the Gooda Walker syndicates. At the same time, the directors of GWRO and their legal advisers instructed Mr Randall to carry out an investigation into certain aspects of the operation of the Gooda Walker syndicates prior to 4th October 1991.

C4.2 Mr Randall was joined by Mr Stephen Bailey, a solicitor, on 3rd February 1992 and the business of Randall Insurance Services was transferred to RISL on 2nd March 1992.

C4.3 RISL has also been assisted in its inquiries by Mr Paul Kennedy, a chartered accountant made available on secondment to GWRO by a major firm of accountants. Mr Kennedy's role has been to conduct a financial analysis of the Gooda Walker syndicates by reference to figures supplied by CRO, the Syndicate Auditors, Heaths and Pinnacle. We are very grateful to Mr Kennedy for his invaluable assistance.

C5. <u>The Freeman Action</u>

C5.1 On 19th February 1992, Michael Freeman & Co. issued proceedings in the Commercial Court of the High Court on behalf of a representative group of Names (including some Names on the Gooda Walker syndicates) against certain Members' Agents and against Lloyd's itself: see <u>Desmond George Boobyer</u> v. <u>David Holman and Company Limited</u> (1992) Folio No B 516. These proceedings became known generally as the "Freeman Action".

C5.2 The purpose of the proceedings was to prevent Lloyd's and the Members' Agents from drawing down on the deposits of Names on various syndicates pending the outcome of other proceedings in which allegations of negligence would be made. Lloyd's resisted the application on the ground that it would undermine the underlying security of the Lloyd's policy.

C5.3 Mr Ralph Sharp, the then Chairman of GWRO, was requested to make an Affidavit in support of the Defendants in the Freeman Action and his Affidavit was duly sworn on 13th March 1992. It subsequently became apparent that there was information in the possession of RISL which could be relevant to the Freeman Action. Accordingly, we informed GWRO and its legal advisers of that information and sought the advice of Leading Counsel on GWRO's behalf. Leading Counsel advised that, notwithstanding the preliminary nature of our findings at that time, the Court should be informed of what we knew so as to comply with the obligation to make full and frank disclosure. Accordingly, Mr Randall prepared a draft Affidavit, setting out the facts which we had by then discovered.

C5.4 Prior to Mr Randall's Affidavit being sworn on 31st March 1992, a draft was provided to Lloyd's together with the advice which we had received from Leading Counsel. Lloyd's formed the view that in all the circumstances it was right and proper for Mr Randall's Affidavit to be placed before the Court. As neither GWRO nor RISL were parties to the Freeman Action, Lloyd's filed the Affidavit on Mr Randall's behalf.

C5.5 In view of the matters raised by the Affidavit, GWRO concluded that all Gooda Walker Names, not just those who were parties to the Freeman Action, should be made aware of its contents and a copy of the Affidavit was therefore circulated through Members' Agents on 2nd April 1992 to all Gooda Walker Names. A copy of Mr Randall's Affidavit is set out in Appendix 4.

D. SCOPE OF THE INVESTIGATION

D1. Instructions

The instructions to Mr Randall in December 1991 for the purpose of this Report were to review the use of time and distance policies in relation to the Gooda Walker syndicates.

D2. Conduct of the Investigation

D2.1 Our objective was to ascertain the facts relating to the Gooda Walker time and distance programme and we adopted the following means to achieve this:

(a) we collected and analysed the policies, wordings and accounting records relating to the time and distance policies in question;

(b) we interviewed a number of the former executives of GWL;

(c) we visited the offices of Pinnacle in Bermuda to review their files;

(d) we visited the offices of Heaths and Willis Corroon Plc to review their files;

(e) we met and corresponded with the Syndicate Auditors;

(f) we met and corresponded with two officers of Citibank and further corresponded with Citibank's solicitors;

(g) we prepared and issued questionnaires to a number of relevant parties;

(h) we considered certain responses to Mr Randall's Affidavit;

(i) we applied expert analysis (both from within RISL's own resources and from outside) to the facts we had ascertained;

(j) we sent relevant extracts of our draft Report to those involved and asked for their comments to ensure that we had correctly recorded the facts;

(k) we reviewed the replies of those to whom the draft Report was sent and we have incorporated such replies where appropriate;

(l) Citibank has asked us to state that in submitting its response, it indicated that it had been obliged to have regard to its duties of confidentiality to customers other than the Gooda Walker syndicates. Citibank has not specifically identified such other customers but, from the context of its remarks, we have surmised that this is a reference to Pinnacle; and

(m) several of those who responded have stressed that absence of comment by them should not be taken as implying either their acceptance of statements or their agreement to RISL's judgments or opinions.

D2.2 Our investigation has taken longer to complete than we anticipated for a number of reasons including the incompleteness of files and records maintained by GWL, the disruption caused by the liquidation of GWL, the number of policies which have been unearthed and the reluctance or inability of a number of parties to respond in a timely fashion to our requests for information.

D2.3 The full extent of GWL's involvement in purchasing time and distance policies and in the related issue of timing risk reinsurances emerged very slowly as we reviewed documentation taken from the syndicates themselves, from the brokers who placed the various time and distance policies, from Pinnacle, from certain banks and from the Syndicate Auditors.

D2.4 At the time of our appointment, the syndicate records generated by and inherited from GWL were in the custody of GWRO and CRO. We were provided with a large quantity of documents thought to relate to time and distance policies which had been purchased from time to time. Where documentation (in particular, the RITC files) was required by CRO for the ongoing management of the run-off of the syndicates, we were provided with copies to facilitate our investigation.

D2.5 Particularly in the early stages of our investigation, progress was hampered by the incomplete nature of the files provided by the former GWL staff. These records were mostly obtained from Mr Robertson and, as our investigation progressed, we became increasingly concerned that he was not co-operating with us as fully as he might. Additional files were provided when we raised questions with Mr Robertson regarding unfamiliar reference numbers or queried amounts which did not tally with the files we had previously been given. We subsequently pressed CRO (until recently, Mr Robertson's employer) to require him to provide a complete list of all time and distance policies but, as the extracts from correspondence in Appendix 8 illustrates, Mr Robertson's reply provided no further assistance. Indeed, some information was only provided by Mr Robertson in response to our draft Report.

D2.6 Our first task in reviewing the syndicate records was to build up a comprehensive list of all time and distance policies purchased on behalf of the Gooda Walker syndicates and, through painstaking analysis and by piecing together records, we have been able to compile a register of policies thus discovered (see Appendix 7). It quickly became apparent that a number of time and distance policies which had matured or had been commuted were not included in the documentation made available to us. Furthermore many of these policies had not been disclosed in the relevant syndicate accounts. Accordingly, we reconstructed the syndicate records in this regard by noting the reference number of every policy of which mention was made in any document seen by us, by cross-referencing to those time and distance policies for which we had records and by making specific requests for documentation and information about those policies for which we had no records. Given the incomplete state of the syndicate documentation, this was an extremely lengthy task.

D2.7 We believe that we have now identified all time and distance policies purchased by the Gooda Walker syndicates but we may not have details of all such reinsurances underwritten by the Gooda Walker syndicates. In this regard we sought the assistance of Lloyd's, but Lloyd's advised us that it was unable to use its investigatory powers to assist a private investigation.

D2.8 Once our preliminary review of the syndicate records had been completed, we approached Pinnacle and requested access to their files. Pinnacle agreed to our attending at their offices in Bermuda and reviewing the files which we had identified to them. It took three days to undertake a general review of the documents available and from this it was apparent that these files were in good order. In the course of our review, we identified further apparently relevant files of which we had previously seen no reference. These additional files were also made available to us by Pinnacle. We are grateful to the management of Pinnacle for their co-operation.

D2.9 In the time available to us it was possible only to undertake a general overview of Pinnacle's files. The information contained in those files required further detailed inspection and local agents were retained to complete this exercise in order to contain the costs.

D2.10 This exercise provided us with further information, including details of the brokerage charged by the placing brokers and the profit margin added by Pinnacle. This information had not been available from the GWL files.

D2.11 Following our review of the Pinnacle files, we obtained copies of the placing and claims files of Heaths. The extent and timing of Heaths' co-operation was disappointing, in view of Heaths' position as the agent of the Gooda Walker syndicates for the purpose of placing many of the policies, but we recognise that some of the senior staff responsible for placing the Gooda Walker time and distance programme (for example, Mr Goodier and Ms Rook) are no longer in Heaths' employment. We still await a number of responses to supplementary questions.

D2.12 We believe (from the syndicate records, from Pinnacle's files and from those maintained by Heaths) that we have been able to build up as complete a picture of each of the time and distance policies placed as is possible at the present time.

D2.13 We have also examined certain policies whereby Gooda Walker syndicates reinsured the timing risk element of policies purchased by other Gooda Walker syndicates. We have, furthermore, seen examples of policies whereby Gooda Walker syndicates underwrote the timing risk in respect of unrelated syndicates, including one example (which has been reported to Lloyd's pursuant to the Misconduct (Reporting) Bye-Law) in which the unrelated Lloyd's syndicate appears ultimately to have reinsured its own liability. The question of timing risk reinsurance is explored more fully in Sections E2 and J of this Report.

D2.14 In order to gain a better understanding of the motivation for the purchase of the time and distance policies, it was necessary for us to review the relevant RITC files for each syndicate. These documents provided us with an overall picture of each of the syndicates at the end of each year of account and therefore with an insight into the possible thinking of those managing the syndicates at the time they were buying the policies.

D2.15 As far as the Syndicate Auditors are concerned, we corresponded with and met some of the partners. We requested copies of certain documents, which have been provided to us where still available.

D2.16 We made repeated requests to interview a number of the former directors of GWL who were being advised by Messrs. Reynolds Porter Chamberlain ("RPC"), the solicitors to GWL's Errors & Omissions insurers. RPC on their clients' behalf said that their clients had already met members of the Gooda Walker Loss Review Committee and saw little point in repeating the interview.

D2.17 During December 1992, we became aware that RPC no longer represented these individuals and accordingly we renewed our invitation to them to meet us. We have now met with Messrs. Ryan, Walker, Judd and Pilch and their comments have been taken into account in the drafting of this Report.

D2.18 Mr Jewell has given us every assistance in relation to our investigation.

D2.19 Mr Moir (who joined GWL in June 1991 with the intention that he should become Managing Director) swore an Affidavit on behalf of Members' Agents in the Freeman Action dealing with one particular aspect of the matters referred to in Mr Randall's Affidavit. This aspect is more fully considered in Section M of this Report (Commutations).

D2.20 To provide as complete a picture as possible, we also approached Heaths and requested access to Mr Goodier and Ms Rook.

D2.21 Neither Mr Goodier nor Ms. Rook is now employed by Heaths but, in response to our request, Heaths on behalf of Ms. Rook proposed that we should provide written questions to her and further stated that Mr Goodier would probably also prefer the questions to be put in writing so that he could reflect on them properly.

D2.22 Despite our reservations about the efficacy of written, as opposed to oral, questioning, we arranged for such questions to be put on our behalf. We also prepared a questionnaire for Heaths, Pinnacle, the Syndicate Auditors and Messrs. Ryan, Walker, Judd and Pilch (the latter individuals then represented by RPC: see paragraph D2.17 above). We have to date received responses to our questionnaire from Heaths, Pinnacle and the Syndicate Auditors.

D2.23 Once the bulk of available documentation had been collected, we commissioned from E&Y a report into the cash flow forecasts for Syndicate 290, taking into account the time and distance policies purchased. A copy of their report is to be found at Appendix 5. We deal with the question of cash flow forecasts in Sections E2 and K of this Report.

E. TIME AND DISTANCE POLICIES

E1. General

E1.1 For the purpose of the annual solvency test, the basis of which is approved each year by the DTI, Lloyd's syndicates are not permitted to discount the reserves which they must hold to meet outstanding and future claims. Thus they are unable, in calculating the amounts necessary to meet such claims, to take account of future investment earnings on the funds so held. Where a time and distance policy is purchased by a Lloyd's syndicate, it can be argued that the same result may be achieved as by a partial discount on reserves, in that the future indemnity value of the policy (which must be credited to the syndicate for the underwriting year in question in calculating the RITC for that year) is greater than the premium paid out. (The difference represents the effective investment earnings on the funds paid to the reinsurer, less the reinsurer's margin, brokerage and other expenses).

E1.2 It is sometimes argued by proponents of time and distance reinsurance that the inability to discount reserves in respect of long-tail business (where claims will not be paid for many years) in itself creates an inequity between Names on the different years of account of a Lloyd's syndicate in that Names on a subsequent year of account will enjoy the investment earnings on claims reserves which have been established by and charged to Names on the preceding year of account. In part to overcome this anomaly, there was a rapid growth during the 1980's in the purchase of time and distance policies (sometimes referred to as "financial reinsurance").

E1.3 The contrary view is that as the Names on subsequent years of account assume the risk and the burden of any deterioration on the back years, they should also enjoy the benefit derived from investment income on the RITC fund or any improvement on the back years. Furthermore, unless there is a published "market-wide" policy for the purchase and treatment of time and distance transactions in the accounts of syndicates, there is a risk of inconsistencies arising as between years of account and as between different syndicates.

E1.4 This Report does not assess the merits of either of the above arguments. It is RISL's view that there is nothing improper about the use of time and distance reinsurance provided (i) there is full disclosure of material transactions and (ii) cash flow forecasts are prepared to test that the closing year will have sufficient cash to meet claims as they fall due for payment.

E1.5 A time and distance policy is a contract whereby, in return for a premium and in the event that the syndicate's claims payments exceed a predetermined amount (which both parties anticipate will occur), the reinsurer agrees to pay the reinsured in respect of such claims up to an agreed sum of money equal (broadly) to the amount of the premium paid plus compound interest less the reinsurer's margin for expenses and profit. In the event of the reinsured syndicate's claims ratio falling below the level at which the time and distance policy is triggered, there is usually a safeguard in the form of a "profit commission" clause which secures the reinsured syndicate's rights to most of the indemnity. Time and distance policies frequently specify the earliest date(s) on which the cedant syndicate may claim on the reinsurance policy. It is worth noting that in our discussions with Pinnacle we have been told that, at the time they wrote each policy for the Gooda Walker syndicates, they considered it would be a total loss. In other words, they believed that the agreed level of claims would be settled by the syndicate, which would give rise to a full recovery under the time and distance policy. We understand that other reinsurers would have taken a similar view.

E1.6 The reinsurer is usually an offshore entity, based in a nil or low tax jurisdiction to maximise the net-of-tax return on the investment of the premium. To secure against any default by the reinsurer, it is often a term of the policy that the full indemnity value must be backed by LOCs (payable to the syndicate on a predetermined future date) drawn on or confirmed by a major UK bank. Alternatively, the reinsurer may arrange for funds to be deposited with a major bank and held to the syndicate's order under an SFA. In most but not all cases, GWL selected the SFA option for the Gooda Walker syndicates.

E1.7 Time and distance policies have been used extensively in the Lloyd's market, see Section E3 below, as well as in other insurance markets. In general, syndicates should, if acting prudently, aim to match the time and distance recoveries to be obtained from the reinsurer to the anticipated cash needs of the syndicate to ensure they are able to meet claims from policyholders as they fall due. Since the purchasing syndicate may be unable (without paying a substantial penalty) to effect recoveries under the policy before a predetermined date, often far into the future, the syndicate must when purchasing such a policy forecast its cash flow to ensure that the recoveries under the policy allow for the cash needs of the syndicate, and usually allowing a margin for error or unforeseen events.

E1.8 Some time and distance policies provide for early commutation but in any event the reinsurer may be prepared to agree extra contractual terms for the early "release" of the funds. As with the early encashment of endowment life policies, the terms for early commutation of time and distance policies can be penal. Furthermore, whilst the syndicate will have the benefit of more liquid assets on early commutation, it will suffer a reduction in the indemnity value provided by the policy which will give rise to a corresponding loss (or reduction in profit) in the syndicate accounts. Early commutation can have a significant impact on the syndicate results, for example, where an earlier year of account had taken the credit for the full indemnity value of the policy and a later year then has to suffer a downwards adjustment on commutation.

E1.9 Although it has financing characteristics, a time and distance policy has been generally accepted in the London insurance market and by Lloyd's as a contract of reinsurance. The premium is deductible for tax purposes but the Inland Revenue insists that credit is at the same time taken by the purchasing syndicate for the full indemnity value of the policy. Thus, the excess of the indemnity over the cost of the premium will give rise to an immediate "gain" which will increase the profits for the purchasing syndicate or reduce its losses. By the very nature of the financing characteristics (that is, the future compound investment earnings), the longer that a recovery is deferred under a time and distance policy, the smaller is the initial purchase cost and the greater the benefit that can be derived. Where a syndicate declares a profit which has been generated or increased through the use of time and distance policies and distributed to Names, this will result in additional profit commission earnings for both the Managing Agent of the syndicate concerned and the Members' Agent who placed Names with that syndicate.

E1.10 A significant disadvantage of time and distance policies is that substantial syndicate funds may be "locked" into the policy until the predetermined settlement dates. This can have a material impact on the functioning of the syndicate if normal cash flows are impeded. Whatever the size of the time and distance benefit taken (which will largely be determined by the date on which recoveries are due), the Names will be adversely affected if, as a result of the premium paid by the syndicate being tied in to the policy for such a period, the syndicate has insufficient liquid assets to meet claims as they fall due.

E1.11 The Syndicate Auditors have acknowledged that cash flow forecasts are one means of assessing an appropriate recovery programme but they have criticised us for failing to refer to other possible methods.

E1.12 The Syndicate Auditors have not expressly indicated what such methods might be but have elsewhere suggested that GWL "made use of settlement projections, rather than formal cash flows, to assess the likely incidence of claims payments".

E1.13 In Section K of this Report we refer to "cash flow" documents which have been produced to us and we explain why projections based solely on the extrapolation of historic data are unreliable in preparing projections for the future.

E1.14 To reduce to the minimum the possibility of a financial penalty being incurred by the subsequent years of account, the cash flow forecast will need to be reviewed and renewed each year, before finalising the next RITC valuation. If it appears likely that the syndicate will be unable to meet claims as they fall due, it will be necessary to seek to reschedule the dates on which the funds may be returned to the syndicate. Alternatively, if rescheduling is not possible, a financing charge (representing an estimate of interest payable on future borrowings during the period of the shortfall) must be added to the RITC valuation at the first year end after a shortfall becomes apparent.

E1.15 The importance of the statements made in paragraphs E1.10 and E1.11 as to the need for cash flow forecasts is demonstrated in Schedule 3 of the Syndicate Accounting Byelaw No. 11 of 1987 "Fundamental Principles and Statements of Accounting Policies" which provides inter alia as follows:

> "4. The accounting policies in respect of items which affect more than one year of account shall be such as to ensure a treatment which is equitable as between the members of the syndicate affected; and in particular the amount charged by way of premium in respect of reinsurance to close shall, where the reinsuring members and the reinsured members are members of the same syndicate for different years of accounts, be equitable as between them, having regard to the nature and amount of the liabilities reinsured".

E1.16 Where an RITC has the benefit of future recoveries under time and distance policies, it is essential to prepare cash flow forecasts to ensure that there is no breach of this Fundamental Principle.

E1.17 The operation of time and distance policies and their consequences in the syndicate accounts is best understood by way of practical example. The example postulated in the following paragraphs of this Report is hypothetical and is not intended to refer to any policy actually purchased on behalf of the Gooda Walker syndicates.

E1.18 When closing its 1989 account in early 1992, a syndicate concludes that it requires US $40 million to meet its liabilities for the 1989 and all prior years of account. A substantial proportion of the risks are in respect of long-tail liabilities and accordingly a proportion of its claims payments will not be due for a number of years as reflected in the syndicate's cash flow forecasts. In the circumstances, the syndicate decides that it would be appropriate to purchase a time and distance policy. So as to leave the syndicate with sufficient funds to meet its intermediate ongoing liabilities, a decision is taken to limit the policy to $10 million excess of $30 million so that it is the final $10 million of the $40 million exposure which is to be protected. Both the syndicate and the reinsurer anticipate that a claim will be made under the policy and the payment dates are structured as follows:

Year	Amount Payable
2006	$2,000,000
2007	$2,000,000
2008	$2,000,000
2009	$2,000,000
2010	$2,000,000

E1.19 The syndicate may purchase the policy at any time until spring 1992 when the RITC for the 1989 year of account is being discussed, but before it has been finalised. Let us assume that the cost of the policy is $6m including brokerage and all other expenses. The syndicate accounts for the 1989 year of account reflect the full indemnity value of the policy ($10m) at a price of $6m. The profit to the 1989 Names is thereby enhanced (or the loss reduced) by $4m and any profit commission payable to the Managing and Members' Agents will reflect this enhancement. The 1990 Names who accept the RITC lose the investment opportunities on the $10 million which has been tied up in the time and distance policy (being $6 million premium and $4 million benefit to the 1989 year of account). Provided the projected payout pattern for the syndicate is properly prepared and claims arise in accordance with the projected pattern on which the cash flow forecasts are predicated, then the 1990 and subsequent Names will not be prejudiced. However, if for some reason the claims paid by the syndicate exceed $30 million before the anticipated dates of recovery under the time and distance policy, there will be a shortfall. Then the 1990 Names will incur the additional cost of meeting the liabilities in advance of the anticipated dates (for example, by way of interest charges on borrowings taken out to meet the shortfall). Conversely, if the settlement rate is slower than anticipated, there will be a consequential benefit.

E2. Timing Risks

E2.1 The question of timing risk is fundamental to any time and distance policy and is closely linked to the need to prepare detailed cash flow forecasts.

E2.2 Time and distance policies effectively enable the "closing" year to take credit for the future compound investment earnings on the funds passed to the reinsurer (less the amounts charged by the reinsurer, the brokers and the bank). In this way, reserves are effectively discounted. It would be improper for the closing year to take or retain credit for the full indemnity value of a time and distance policy if it is likely at the outset that the fund comprising the reinsurance to close paid over to the successor year will be insufficient to enable claims to be paid as and when they arise. For this reason it is our view (as explained in more detail above) that the Managing Agent must prepare detailed cash flow forecasts both at the time the policy is taken out and also at each subsequent year end when the RITC is next being calculated.

E2.3 An alternative approach would be for the reinsurer to provide a policy which enabled the purchasing syndicate to make a claim at any time. The reinsurer would take the risk that the timing of future claims would vary from that originally envisaged when the policy was purchased. The reinsurer would itself wish to see detailed cash flow forecasts to satisfy itself that it would have use of the funds for the full term of the policy. It would usually add an additional risk premium for such cover.

E2.4 A timing risk reinsurance policy is intended to respond when the reinsured syndicate's rate of claims payments is greater (or faster) than originally anticipated. Thus, the loss to the timing risk reinsurer is the interest cost of the "temporary" advance provided. Indeed, some timing risk policies do not provide the full indemnity amount of the early drawdown but merely provide for reimbursement of the notional interest charges incurred in respect of the accelerated claims.

E2.5 Of paramount importance, therefore, is the question who bears the timing risk. If it is the reinsured, then the reinsured must be confident that the retained cash balances will be sufficient to meet the net claims outflow pending the recoveries under the time and distance policy.

E2.6 At the present time there is considerable debate amongst insurance practitioners, regulators and the accounting profession as to whether or not a time and distance policy which does not carry the burden of the timing risk is in fact a genuine contract of reinsurance. The reason for this is because it is said that there is no true transfer of insurance risk on the basis that the reinsurer merely purchases securities which will produce a fixed amount at a future date. In Appendix 12, we set out the most recent Lloyd's communication on this subject.

E2.7 From what we have said above, it is vital for the Syndicate Auditors to be aware of the existence of a time and distance policy to enable them to take into account the implications of the contract(s) on the year-end figures. The timing risk is a key factor in this regard. In particular, the Syndicate Auditors would need to be satisfied that the timing risk had been properly factored into the RITC by the Managing Agent.

E2.8 In paragraph 54 of Mr Randall's Affidavit it was stated that the next stage of the investigation would be to consider the following:

1. (a) whether the dates selected for the recoveries under the time and distance policies were and continued to be realistic having regard to the likely claims payment pattern of the business underwritten;

   (b) whether the effect of the selection and maintenance of dates far into the future for large recoveries under time and distance policies inflated the profits of the syndicates which were then distributed to Names;

   (c) whether the liquidity of the syndicates to meet claims was impaired by the locking up of funds per (a) and/or the distribution to Names of inflated profits per (b); or

2. whether the time and distance programme was a proper attempt to ameliorate the cost to Names of carrying conservative reserves.

E2.9 In our review of timing risk issues, we have therefore undertaken a specific review of Syndicate 290 which was a major purchaser of time and distance reinsurance. We have been assisted by E&Y in preparing cash flow projections for Syndicate 290 as at 31/12/90 and 31/12/91 (see Appendix 5). We comment in detail on the results of the E&Y Report in Section K below.

E3. <u>The Use of Time and Distance Policies in Lloyd's</u>

E3.1 The Syndicate Auditors have stated that the impact of time and distance policies implemented for the GWL syndicates could only be put into perspective by providing background information regarding the use of time and distance reinsurance within the Lloyd's market generally. We do not believe that it was part of our remit to investigate time and distance reinsurance at Lloyd's generally but, in view of the force with which the Syndicate Auditors expressed their opinion, we set out below what they have said to us:

> "Syndicates have used time and distance policies to a very considerable extent over many years, some involving indemnity values of hundreds of millions of pounds, and in so doing have increased profits or reduced losses accordingly.
>
> According to a survey of Lloyd's syndicates with T & D policies in effect carried out by Chatset in 1991, which reflected the position at the closing of the 1987 Account (and run off years) the aggregate of T & D indemnity credited to RITC's at 31/12/89 amounted to £1,288m. The amount attributable to GWL syndicates was £64.7m, or 5%.
>
> We believe the amounts have increased substantially since that date.
>
> For those syndicates, when compared with the gross RITC or EFL (ie before T & D credit), the aggregate T & D was 38%, against 46% for the GWL syndicates. 12 syndicates had T&D credits in excess of 50% of the gross RITC.
>
> The impact of the use of T & D policies on such syndicates will have been the equivalent as on the GWL syndicates, namely that reported profits for Names were increased (or losses decreased) and, where profits were earned in excess of those which would have been disclosed without T & D's, then profit commissions to Managing and Members' Agents will have been increased, in many cases, significantly".

F. THE GOODA WALKER TIME AND DISTANCE PROGRAMME

F1. GWL's Reasons for Purchasing Time and Distance Reinsurance

F1.1 We were told by Mr Robertson that the time and distance policies purchased for the Gooda Walker syndicates fell into two broad categories:

(a) Policies which were viewed as investments. These were usually purchased in the early months of the particular year of account paying the premium and matured (or were commuted) before the close of that year in the expectation that the proceeds would equal the investment gain in addition to the return of the premium paid. We describe these as "in-account" policies; and

(b) Policies which were purchased (usually at the point when the year of account was about to be closed and the preliminary result of that year was already known) in order to reduce the future net claims cost (and thus improve the underwriting result by charging a lower RITC) for the closing year of account.

F1.2 A number of policies purchased by the Gooda Walker syndicates fell into category (a) above. We have also seen several examples where time and distance policies were commuted and the proceeds used to purchase new policies. The chart in Appendix 10 gives some indication of the extent and complexity of such transactions. Not surprisingly, we experienced considerable difficulty in tracking the various entries through the syndicate books. However, so far as we are able to judge, the proceeds realised by the commutation of such policies and the premiums paid for replacement policies were allocated to the correct years of account.

F1.3 It is sometimes argued that the Lloyd's convention for allocating investment return to particular years of account (the so-called "Riesco" method whereby investment earnings are allocated to years of account by reference to the average funds retained by each year) does not secure an equitable allocation of the investment return when there are significant fluctuations in interest rates. Some Lloyd's syndicates have used time and distance policies to "lock in" exceptionally high interest rates and to secure the allocation of the investment return to a particular year.

F1.4 Mr Robertson told us that he believed that in-account policies represented a good rate of return on the monies "invested". Absent exceptionally high interest rates, we find this surprising, not least because the costs associated with time and distance reinsurance include payments to an insurance broker and a reinsurer, neither of which would be involved in a conventional investment purchase by the syndicate. Mr Pilch subsequently told us that he had not been aware of the "in-account" policies. He commented generally that he could see no point in purchasing them, since GWL could have purchased the same bonds as the reinsurers without incurring the associated costs referred to above, and he made it clear that he did not regard the purchase of "in-account" policies as a proper means of achieving an investment return for the syndicates. However, he noted that he would have been in a position of limited influence to control such purchases in view of the decision of Lloyd's that time and distance policies were contracts of insurance and thus an underwriting rather than an investment matter.

F1.5 Mr Judd told us that he did not view in-account policies as time and distance reinsurance. He said that he had discussed with Mr Pilch the availability of a "guaranteed return" on a policy to be purchased from Manufacturers P&C Limited. Mr Judd had been attracted by the idea of a "guaranteed profit" and since, he said, Mr Pilch could not "guarantee" an equivalent rate of return, he viewed in-account policies as being beneficial to Names. Mr Pilch could not recall this conversation but confirmed that he would not have been prepared to guarantee any return on an investment.

F1.6 In Section N, we point out that GWL sub-contracted its investment management function to GGISL and we indicate the level of fees charged at various times to the Gooda Walker syndicates for these services and the compensation paid to the directors of GGISL who were also directors of GWL.

F1.7 We are surprised that the directors of GWL believed that time and distance policies represented an appropriate means of achieving investment returns unless there were exceptional opportunities to "lock in" high interest rates. In Appendix 9, we set out examples of the rates of return actually achieved and show comparisons with the then current market rates.

F1.8 The simplest way to illustrate the use of time and distance policies as part of the syndicate investment programme is by way of an example taken from syndicate records. On 26th February 1989, Syndicate 290 purchased a time and distance policy to benefit the 1989 pure year of account. The premium charged to the syndicate was $3,920,000 and the policy was fixed to mature on 16th December 1991 in the sum of $5,000,000.

F1.9 The costs to Syndicate 290 of purchasing time and distance policies as an investment are not easily discernible from the syndicate accounts. For example, on the policy mentioned above, the brokerage charged to Syndicate 290 was $15,000. Pinnacle charged a margin of $23,000 and the SFA supporting the policy cost a further $6,000. The total additional costs to the syndicate were therefore some $44,000. Typical investment management fees charged by an independent investment manager would have been no greater than 0.2% p.a. of the funds invested (that is, a total cost significantly lower than $44,000). Furthermore, a straightforward investment in fixed interest securities would have resulted in the invested funds remaining the property of the syndicate, thereby providing greater liquidity and flexibility.

F1.10 With very few exceptions, in-account policies and commuted contracts (see paragraph F1.2) were not disclosed in the syndicate accounts. (See Section G for details of disclosures made in the annual syndicate accounts).

F1.11 In the case of time and distance policies falling into category (b) in paragraph F1.1 above, the rationale appears to have been quite different.

F1.12 We have seen extracts from the examination of some GWL employees conducted by the Gooda Walker Loss Review Committee.

F1.13 We would have expected the question of equity between Names to have been the subject of discussion amongst the directors and, most especially, with the active underwriter. The Syndicate Auditors informed us that "before an audit report to a syndicate annual report is signed consideration is given to equity matters having a bearing on each annual report". Mr Walker's evidence to the Gooda Walker Loss Review Committee (see page 316 of Volume 2 of the Report of the Gooda Walker Loss Review Committee) was as follows:

> "I think you can properly say that at all times we only purchased these if the syndicate looked in need of helping the RI to close and at all times where the time and distance was built in. At the time that the syndicate closed we were in contact with Littlejohn Frazer's, the Lloyd's Panel auditor, and we sought their approval before the closing of the audit for whichever years we purchased them. It was not a decision to buy them every year. We just purchased them if and at the time it helped the Names of the syndicate. I believe the basic thinking behind the time and distance policy, I have learned over the years, is that, as I said, it may be a form of claims discounting. It seemed to be able to help a year that might have shown a loss and by purchasing the policy we were able to avoid a loss to the Names. It also brought forward the reserve which at that time we thought was required for the syndicate appreciating the down side may well be that the

ongoing Names lose some of their investment income. But the Names on the closed year certainly get the benefits of the policy. I think that is basically the thinking behind the policy"

and (at page 317):

"Q. So, the primary purpose then, if I can paraphrase what you were saying earlier, was to improve the result in the year in which you purchased them for the benefit of the Names. --A. Yes, plus, of course, to make sure that the carry forward reserves for the syndicate were more than adequate".

The Report of the Loss Review Committee goes on to say that "Mr Robertson has confirmed this rationale".

F1.14 Mr Robertson at the outset said to us that, as far as GWL was concerned, the aim of the time and distance programme was to secure an improved return to the Names on the closing year of account. On subsequent occasions (and also to the Loss Review Committee - see page 317 of the Loss Review Committee's Report), Mr Robertson suggested that the time and distance policies were intended also to bolster reserves but our analysis below indicates that the use made of time and distance policies by the Gooda Walker syndicates actually depleted syndicate reserves.

F1.15 We suggested to Mr Robertson that if it had been the intention to purchase such policies in order to bolster reserves then it would have been more logical to have done so on the back of making a cash call from Names, the proceeds of which might have been applied to a time and distance policy to match the increase in reserves for future claims deemed necessary by GWL. We pointed out that the effect of many of the Gooda Walker time and distance policies was to give rise to a profit where a loss would otherwise have arisen (or to increase a small profit), which involved a double outflow of funds from the syndicates - first, to purchase the time and distance policy and, second, as a profit distribution to Names - and that this appeared to represent a diminution in the reserves carried by the Gooda Walker syndicates rather than the "bolstering" suggested by Mr Robertson. Mr Robertson acknowledged that this was the case from a pure accountancy viewpoint but reiterated that his comment related to the potential for increasing the gross reserves before deducting the time and distance recovery.

F1.16 Based on our investigation to date including the review of documents and discussions with Mr Robertson, Mr Walker, Mr Pilch, Mr Ryan and Mr Judd, it appears that:

(a) Time and distance policies were purchased in order to improve the syndicate results to Names on the closing year. Mr Robertson's assertion that they were used also to bolster syndicate reserves was not substantiated.

(b) Time and distance policies were first purchased in the early 1980's to reduce or eliminate losses which had arisen on Syndicates 164, 290 and 295.

(c) Thereafter time and distance policies were used from time to time not only to reduce losses but also to enhance syndicate profits with the obvious beneficial effect on the profit commissions earned by the Gooda Walker Group (and unrelated Members' Agents) and the enhanced standing of the Gooda Walker syndicates in the published Lloyd's league tables.

(d) The suggestion that time and distance policies were used as part of the normal investment management function is surprising given that:

   (i) GGISL charged substantial fees to the GWL syndicates for investment services.

   (ii) Rates of return achieved on time and distance policies were generally below those available in the conventional investment market place (see Appendix 9).

F2. <u>The First Policies</u>

F2.1 Syndicate 295 appears to have been the first Gooda Walker syndicate to purchase a time and distance policy.

F2.2 From a review of the syndicate accounts and correspondence with Members' Agents, it would appear that the background was as follows. At 31st December 1980, the 1978 account had closed with a loss of £2,395 for a £10,000 share which was a substantially worse result than had been predicted a year previously. The "market report" which accompanied the syndicate accounts at 31st December 1980 explained that the reason for the deterioration largely related to under-reserving of the treaty account. It was also reported that the 1978 and prior years had been protected by "whole account excess of loss reinsurance in the Lloyd's market". (In fact, there were two policies led by unrelated Lloyd's syndicates but in which Syndicate 290 had a substantial participation as explained in paragraph G4.1 below).

F2.3 At 31st December 1981, the 1979 account closed with a loss of £2,933 for a £10,000 share which was again worse than had been forecast, even though the loss had been ameliorated by the purchase of two time and distance policies from First State Insurance Company (see paragraph G4.4. below). We have seen correspondence from Members' Agents expressing concern about these losses and in particular the fact that the final result was much worse than forecast.

F2.4 Thereafter GWL purchased more than forty time and distance policies. These are referred to in Section G below.

F3. The Principal Brokers

F3.1 In the case of Syndicate 290, the principal individual involved was Mr Andrew Goodier, a broker employed by Golding Collins Limited. Mr Walker recalled that he met Mr Goodier after the latter had placed a run-off reinsurance contract for Syndicate 299. He had been impressed with Mr Goodier and Mr Goodier's then employers, Golding Collins Limited. Subsequently Mr Goodier had shown Mr Walker a number of timing risk reinsurances for unrelated Lloyd's syndicates and Mr Walker had underwritten a small number of these. Mr Walker told us that Mr Goodier appeared to have quite a good client list at Lloyd's, that he provided a good service and that he "was always on call for us". The Gooda Walker business followed Mr Goodier when he moved on to Heaths in 1987.

F3.2 There appears to be some uncertainty amongst the former directors of GWL about the process whereby the various time and distance policies were placed.

F3.3 Mr Robertson told us that Mr Goodier would regularly visit Mr Walker and it would be after a meeting with Mr Goodier that Mr Robertson would be instructed to put in hand the purchase of a particular policy. Usually this would happen towards the beginning of the year for an in-account policy or at the time the RITC was being prepared for other policies. In the latter case, Mr Robertson would provide Mr Walker with provisional figures for a particular year of account and, following a meeting with Mr Goodier, Mr Walker would normally instruct Mr Robertson to put in hand the purchase of a time and distance policy to achieve the agreed benefit.

F3.4 Mr Walker, on the other hand, recalled that Mr Robertson had freedom to identify opportunities and that it was for Mr Robertson to come forward with recommendations for his (Mr Walker's) consideration. Mr Walker viewed Mr Robertson as the in-house time and distance expert and said that Mr Robertson had access to syndicate statistics and seemed to understand how such policies worked.

F3.5 We put to Mr Walker the suggestion that he had agreed the purchase of time and distance policies directly with the broker and that thereafter it was for Mr Robertson simply to attend to the administration when he was informed that the deal had been done. Mr Walker could not recall any such instance.

F3.6 We asked Mr Walker whether Mr Robertson had always been responsible for purchasing time and distance policies. Mr Walker said that he was:

> "unable to recall the details of individual meetings and conversations which took place, great care was taken before we purchased these policies, if a problem was identified and a T&D policy was the solution and the price was right we might purcahse one, at all times Mr Robertson kept me informed and he did not purchase any policy without my permission".

Mr Ryan and Mr Judd both confirmed that they considered Mr Robertson to be the agency expert on time and distance reinsurance.

F3.7 Mr Goodier appears also to have been the principal individual involved in purchases on behalf of Syndicates 295 (apart from the First State policies purchased via Alexander Howden), 299, 387 and 514.

F3.8 Mr Judd told us that in the case of Syndicate 164, he chose to instruct Mr John Gough and it appears that many (but not all) of the policies purchased by Syndicate 164 were handled by Mr Gough. Mr Gough broked business on behalf of Golding Collins Limited. In 1985, he left Golding Collins Limited to join the Fielding group which was subsequently merged with the C.E. Heath group.

F3.9 In the case of Syndicate 298, Mr Andrews used another Lloyd's broker. We have not sought to interview Mr Andrews but Mr Robertson has told us that Syndicate 298 made its own arrangements for purchasing time and distance reinsurance.

F4. The Reinsurers for the Gooda Walker Time and Distance Programme

F4.1 With certain exceptions, Pinnacle was the preferred reinsurer for the Gooda Walker syndicates.

F4.2 The only exceptions of which we are aware were:

(a) Meacock Syndicate 727 which was the reinsurer on two policies protecting the 1980 and prior years of Syndicate 164. Syndicate 727 in turn retroceded much of its exposure on these policies via time and distance reinsurance with Pinnacle (see paragraph G2.1);

(b) Various Lloyd's underwriters in relation to all time and distance policies protecting Syndicate 298 (see paragraph G6.14);

(c) Manufacturers P&C Ltd, which was the reinsurer of Syndicate 164's in-account policies (see Section G2);

(d) First State Insurance Company, which reinsured the first two policies purchased by Syndicate 295. These policies were subsequently commuted and the proceeds used to enhance the value of another policy placed with Pinnacle (see paragraph G4.4).

F4.3 We asked Heaths why most of the time and distance policies which they had broked on behalf of GWL syndicates were placed with Pinnacle. They replied that:

> "The choice of reinsurer is ultimately one for Gooda Walker, not for C.E. Heath. In obtaining quotations, however, C.E. Heath would only be prepared to approach reinsurers who were both experienced in time and distance contracts and who were able to offer sufficiently competitive quotes backed by first class security. Additionally, it was often the case that C.E. Heath was asked to obtain very prompt quotes. Although there were a number of other reinsurers of varying quality in the time and distance market at the time, Pinnacle were one of very few who were in our view able to offer all the above. Pinnacle were well known to the reinsured with whom they already had an established relationship when Mr Goodier joined C.E. Heath".

F4.4 In its response to our draft Report, Heaths commented further as follows:

> "We consider that the identity of the reinsurer is very relevant, even where time and distance policies are supported by LOCs or SFAs. If, for example, the reinsurer goes into liquidation at some stage during the currency of a reinsurance contract, there is always a risk that the liquidator will seek, albeit wrongly, to take possession of the assets that are the subject of the SFA. In particular, a liquidator might seek to challenge the reinsured's charge over such assets in order to use such assets to pay off any secured creditors. Although such actions would of course be challenged, there would inevitably be a substantial delay in obtaining the release of such funds.
>
> Liquidation would also render the processing and handling of collections and the agreement of any contractual amendments with the reinsurer very difficult, if not impossible, particularly if an orderly run-off could not be assured".

F4.5 Citibank noted that an SFA could prove to be significantly more costly to a syndicate than an LOC, in the event of the relevant reinsurer becoming insolvent.

F4.6 We agree that the identity of the reinsurer is relevant but we believe that Heaths may have overstated the case. In any event, we believe that there were other suitable reinsurers in the market who might have been able to offer competitive terms, had they been asked. In relation in particular to the question of delay in obtaining the release of funds, we think it helpful for us to set out the terms of a typical SFA on this point. The SFA supporting policy P85007 contained the following clause:

> "SECTION 4 - SYNDICATE'S CLAIM ON FUND
>
> 4.1 In the event the Reinsurer defaults upon its obligation to pay to the Syndicate the losses due under the Reinsurance Contract, or in the event the Reinsurer is in default with respect to required deposits under this Agreement, the Syndicate may take possession of the securities represented by the Fund and sell the same at public or private sale and exercise such other rights as may be permitted by applicable statute; provided, however, that the Syndicate first comply with 4.2
>
> 4.2 The Syndicate may demand possession of the Fund and the Bank shall deliver the Fund to the Syndicate upon receipt by the Bank of an affidavit sworn by an authorised representative of the Syndicate, and countersigned by Fielding & Partners Ltd stating that (a) he is duly authorised by the Syndicate to swear the affidavit, (b) ten days' notice has been given to the Reinsurer, (c) the Reinsurer is in default and has not cured that default since the notice was given and (d) the Syndicate is entitled to receive from the Bank the securities currently in the Fund."

F5. Absence of Policyholder Safeguards and OCAs

We asked Mr Robertson why some obvious safeguards had not been built into each of the time and distance policies (for example, limits on brokerage taken and profit commission clauses to guarantee that the syndicate would be entitled to reimbursement if claims did not reach expected levels) and why the syndicates had not used OCA clauses (other than in the case of Syndicate 295) to facilitate the early drawdown of policies. Mr Robertson told us that the wording of the policies did not matter since it was clearly understood by both parties how the policies should operate.

G. TREATMENT IN ACCOUNTS

G1. Disclosure

G1.1 There follows in this section of the Report a description of the disclosure of time and distance policies in the relevant syndicate accounts. An analysis of the impact of these policies on the results of the Gooda Walker syndicates is contained in Section H.

G1.2 The rate at which it is likely that a syndicate will expend money on claims payments is largely determined by the nature of the business which has been underwritten. We have therefore also reviewed the accounts of Syndicates 164, 290 and 295 (the major purchasers of time and distance reinsurance) to establish the split between long-tail and short-tail business. As will be apparent from our description of time and distance reinsurance set out in Section E1 of this Report, the purchase of time and distance policies is generally more appropriate to long-tail than to short-tail business. Excess of Loss business, although categorised as short-tail, inevitably has a longer claims cycle than direct short-tail business. The accounts of Syndicates 164, 290 and 295 show that the business written in the 1980's was predominantly short-tail, yet the use of time and distance policies was material.

G1.3 A matter raised by the Syndicate Auditors in considerable detail in their response to our draft Report was the question of disclosure of the Gooda Walker time and distance programme in the syndicate annual accounts. In particular, they wished us to make it clear that, in their view, prior to 31st December 1985, there was no Bye-law requirement to disclose time and distance policies and thereafter only when such policies were considered to be material. The Syndicate Auditors further stated that where "in-account" policies were discussed with them they agreed disclosure was not required as the net effect on reported results was not material.

G1.4 It is not the purpose of this Report to debate whether individual policies were material for disclosure purposes or not. The real issue is whether the overall level of disclosure would have alerted a reader of the accounts as to the impact which the time and distance programme had on the reported results. We were interested to note that the Report of Lloyd's General Review Department in May 1991 concluded in relation to the Gooda Walker time and distance programme as follows:

> "We note from the annual report and accounts for the years ended 31 December 1988, 1989 and 1990 of syndicates 164, 290, 295 and 299, that the extent of disclosure of the various time and distance policies does not fully assist readers of the accounts to understand the impact of these policies".

Disclosure after 1987 was more comprehensive than in prior years, but we have established that many policies were not disclosed and no mention was made of the existence of inter-syndicate reinsurances of Pinnacle.

G1.5 The accounting treatment of time and distance policies is now governed by the Syndicate Accounting Bye-Law (No. 11 of 1987) and the accompanying explanatory notes. That Bye-Law came into force with effect from 1st January 1988. The explanatory notes stipulate that:

> "... time and distance policies should be separately disclosed. Such disclosure is considered necessary because of the nature of these policies and the fact that the amounts involved are generally significant in their effect on the profit or loss for the closed year of account and/or the reinsurance to close premium. The fact that a time and distance policy may give rise to a substantial "off balance sheet" asset is an additional factor giving rise to the need for disclosure. The disclosure made should assist any reader of the syndicate annual report in understanding the impact of, for example, any time and distance policy and any recoveries thereunder".

G1.6 In response to our draft Report, Mr Walker said:

> "In my opinion all Lloyd's by-laws were met and there was no Non-Disclosure to names, I have seen most of the Lloyd's syndicate accounts and up to the time Lloyd's Audit department recommended R/I details to be put into the accounts other groups had not declared details of T&D.
>
> If policies were purchased within the open three years, providing full account was made at the closing of the year, which the Gooda Group did, there was no reason to advise names, you are trying to highlight a problem which is not there.
>
> It was only in the last few years that it was recommended that an outline of the Reinsurance programme should be advised in the accounts, in my opinion the Gooda Group gave more information than many other Syndicates in Lloyd's, and please note copies of the accounts were checked by Lloyd's Audit department and we met the guide lines in full".

G1.7 Notwithstanding the above comments of Mr Walker (G1.6) and the Syndicate Auditors (G1.3), we have noted inconsistency in the reporting of in-account policies. For example two such policies (numbers 7 and 8) were disclosed in the accounts of Syndicate 290 for the year ended 31st December 1990 (see paragraph G3.45 below).

G1.8 As far as the question of equity between Names is concerned, we note the following statement which was made in the RITC summary prepared by GWL at 31/12/90 in respect of Syndicate 290:

> "The Reinsurance to Close has been considered both from the point of view of the Names on the 1988 account who are being reinsured and the Names on the 1989 account who are accepting the reinsurance. On the basis of all the available information and statistics, it is considered that the reinsurance is equitable to Names on both years".

Similar statements appeared in the summaries for earlier years and for other syndicates.

G1.9 In a questionnaire sent on 3rd September 1992, we asked the Syndicate Auditors what consideration was given to the question of equity between Names and their reply, in a letter dated 21st September 1992, was as follows:

> "The matter of equity is specifically addressed in Schedule 3 of the Syndicate Accounting Byelaw and I confirm that, so far as this firm is concerned, before an audit report to a syndicate annual report is signed consideration is given to equity matters having a bearing on each annual report".

G1.10 We asked a number of the former directors of GWL how the RITC came to be approved for each syndicate by the Board of GWL. It appears that there was no formal presentation of the figures nor was there any apparent discussion of how they were calculated. As far as Mr Robertson can recall, the accounts for each syndicate were presented by Mr Pilch and the Board were not asked to discuss the methodology of the RITC, nor did they receive a draft of the accounts to be circulated to Names. Mr Robertson stated that the Board merely agreed the final figure produced by the underwriter and commented that it was a matter of trust on the Board's part. This was largely confirmed by Mr Pilch who said that the accounts were given formal approval only. He confirmed that RITC summaries were not circulated to the full Board but that they were considered by the underwriter and Mr Gooda. In each case the RITC was specifically approved by the Board and confirmed to the Syndicate Auditors in letters of representation.

G2. Syndicate 164

Year ended 31/12/82

G2.1 In September 1982, Syndicate 164 purchased a reinsurance (Ref: 82MX01511) from Meacock Syndicate 727 providing a maximum indemnity of $2m in respect of asbestos-related claims. In December 1982, Syndicate 164 negotiated an unlimited run-off reinsurance with Merrett and Outhwaite syndicates for the 1980 and prior years of account and, at about the same time, Syndicate 164 converted the Meacock asbestos protection into a whole account reinsurance for the 1980 and prior years of account for coverage of $2m excess of $9m. A further policy (Ref: 82MX01550) was purchased from Meacock also in December 1992 giving coverage of $4m excess of $11m. The two Meacock policies, in effect, formed the excess point for the unlimited run-off reinsurance. The Meacock policies contained no restrictions as to the timing of recoveries by Syndicate 164. We have ascertained that Syndicate 727 in turn reinsured much of its exposure on these policies via time and distance reinsurance with Pinnacle. All of these reinsurances were subsequently considered in the course of arbitration proceedings involving Syndicate 164 and Merrett. In the event, the unlimited run-off policy was upheld in arbitration but the Arbitrators ordered that the excess point be raised because of the adverse impact of the undisclosed conversion of Policy 82MX01511.

G2.2 Although the purchase of unlimited run-off reinsurance was reported in the Managing Agent's Report, the accounts for the year ended 31/12/82 made no specific reference to the two Meacock policies.

Year ended 31/12/83

G2.3 No time and distance or similar policies were purchased during 1983.

G2.4 The combined Underwriter's and Managing Agent's Report contained the following statements:

> "....the 1981 account has closed with a profit....
>
> You will see from the accounts that the loss ratio for 1982 shows an improvement on 1981 and 1983 is very similar to 1981 at the same time.
>
> As reported last year the 1980 account and all previous years was Reinsured out with 100% Lloyd's security on an unlimited basis excess of the reserve created to close the 1980 account. There has been a further deterioration in the Asbestosis and latent disease potential claims protected by this Reinsurance."

Again, there was no specific reference to the two Meacock policies mentioned in paragraph G2.1 above.

Year ended 31/12/84

G2.5 No time and distance or similar policies were purchased during 1984 and, again, there was no specific reference to the two Meacock policies mentioned in paragraph G2.1 above.

G2.6 The Underwriter's Report contained the following statements:

> "...1982 account has closed with a satisfactory profit...
>
> Closed Year
>
> In view of the very depressed condition of the Non-Marine Market we are pleased that the Syndicate has closed 1982 account with a profit. Very poor underwriting results were experienced in North America and overseas property damage...
>
> Open Years
>
> You will see from the accounts that 1983 shows a deterioration on 1982, and 1984 is comparable with 1982 and should be profitable. The deterioration of 1983 is due to heavy losses sustained from Hurricane "Alicia" and "Winter Freeze" losses in North America; however, substantial Reinsurance recoveries are due to the Syndicate which will improve the settlement and we expect the year to produce a profit. A substantial proportion of these recoveries has been accrued in the accounts.
>
> General Comments
>
> As in previous reports we informed you that the 1980 account and all previous years were reinsured out with 100% Lloyd's security on an unlimited basis excess of the reserve created to close the 1980 account. There has again been further deterioration in the asbestosis and latent disease potential claims protected by this reinsurance but this will not affect the Syndicate results.
>
> In conclusion we feel that 1985 will see more stability in our markets, an increase in the volume of business coming into Lloyd's, with the problems of world wide over capacity and severe competition very much on the decline."

Year ended 31/12/85

G2.7 The Managing Agent's Report contained the following statement:

> "Future Plans
>
> We feel that market conditions continue to favour the underwriter and we intend to expand the syndicate by approximately 60% for the 1986 account compared with the 1985 account."

G2.8 The Underwriter's Report stated that the syndicate placed emphasis "on the underwriting of short-tail business" and the following breakdown was provided, with the percentages calculated on the Gross Pure Premium Income for each year of account at 31/12/85:

Year of Account	Short-Tail %	Long-Tail %
1983 (36 months)	75	25
1984 (24 months)	79	21
1985 (12 months)	87	13

G2.9 Thus it could be seen that the account which had been written in recent years was predominantly short-tail and the outstanding liabilities for the 1980 and prior years had been reinsured by the unlimited reinsurance written by the Merrett and Outhwaite syndicates.

G2.10 Despite the predominantly short-tail nature of the business being written, a time and distance policy was purchased from Pinnacle (Ref: T86G123) on 24th March 1986 for the 1983 account, with recovery dates between May 1992 and May 1996.

G2.11 On 28th April 1986 (that is, still well before the accounts for the year ended 31/12/85 were approved on 10th June 1986), it was agreed that Syndicate 164 would purchase for $80,000 from Outhwaite Syndicate 661 a timing risk reinsurance which was described as "an indemnity in respect of all charges made against Syndicate 164 in the event of their settling more than $4,428,275 [which was the excess point for Policy T86G123] prior to 31st December 1991". We have reviewed workings on the broker's file which may be estimates of future claims payments prepared at the time of purchasing the timing risk reinsurance policy written by Outhwaite. Mr Robertson has told us that this timing risk reinsurance was for one year only and was not extended or renewed, even though the timing risk policy was stated to be in respect of settlements excess of $4,428,275 prior to 31/12/91, that is, a date more than five years into the future.

G2.12 We asked Mr Judd about the Pinnacle time and distance policy T86G123 and the Outhwaite timing risk reinsurance. He told us that he was not an expert in this type of insurance and relied heavily on input from Mr Walker and Mr Robertson. He explained that Mr Walker had written an excess of loss reinsurance of the Outhwaite syndicate on behalf of Syndicate 164 and a very substantial loss was developing on this reinsurance. He said that Mr Walker had subsequently negotiated a "cap" on Syndicate 164's liability but Syndicate 164 nevertheless sustained a substantial loss on the Outhwaite excess of loss reinsurance. Mr Walker had then approached Mr Judd to recommend that Syndicate 164 purchase a time and distance policy to reduce the cost to Names and Policy T86G123 was purchased as a result. Mr Robertson dealt with the administrative details. Mr Judd now has no recollection of the timing risk reinsurance policy purchased from Outhwaite but conceded that he must have been aware of its existence as the subsequent syndicate accounts contained a reference to the absence of timing limitations on the Pinnacle policy. He expressed surprise at Mr Robertson's assertion that the Outhwaite timing risk reinsurance was for one year only given the wording of that policy. Indeed he commented that the policy would have had little value unless it ran until 31st December 1991. Mr Judd also told us that he would have looked to Mr Robertson to deal with the question of cash flow forecasts in relation to the purchase of time and distance reinsurance. Mr Outhwaite can recall nothing regarding the background to and operation of this timing risk reinsurance and is presently searching his records. Mr Robertson, in his response to our draft Report, said that:

> "Mr Judd is mistaken - Mr Walker had not written an Excess of Loss R/I of Outhwaite, it was a Quota Share R/I. The cap negotiated should have resulted in a minimal incurred loss (claims net of premiums - all currencies combined). You have quite obviously not looked at the policy nor the figures. From memory there was some $700,000 still to be collected by Outhwaite to exhaust this cap at the time of my departure from Bankside. The investment income on the outstandings held over the years since the "capping" may well result in an Accountant saying that the overall result became a profit!

I consider this whole section ill conceived; it is blatant guesswork. There is absolutely no connection whatsoever between the Quota Share policy and T86G123 (and its back-up policy T86G135) and your timing is hopelessly adrift".

Mr Walker confirmed to us that the Outhwaite reinsurance in question was a quota share policy but he had no recollection of a conversation with Mr Judd regarding a recommendation to purchase a time and distance policy. We are unable to comment on the apparent difference between Mr Judd and Mr Robertson.

G2.13 The Underwriter's Report also contained the following statements:

"Closed Year

The 1983 year non-marine wise can only be described as a very depressed account and in view of this situation we are pleased that the Syndicate has closed with a profit...

Two major catastrophes were sustained during the year from Hurricane "Alicia" and "Winter Freeze" losses in North America. Adverse underwriting results were also experienced on North American and overseas general property business...

The 1983 account has been protected by substantial aggregate Stop Loss cover amounting to some $7,250,000. This is in addition to the reserves shown in the accounts.

Open Years

The 1984 account shows a good improvement over 1983 at 24 months, this year not being subject to any major catastrophes unlike the 1983 year.

The 1985 year shows a very small improvement over 1984. We consider both the open years to be satisfactory and expect them to be profitable..."

G2.14 A Note to the Accounts stated as follows:

"Exceptional Items

Premiums in respect of reinsurances ceded include £2,917,241 in respect of a whole account aggregate reinsurance policy effected by the 1983 account. The reinsurance to close the 1983 underwriting account has been reduced by £5,000,000 in respect of known future recovery on this policy."

Again, there was no specific reference to the Meacock policies referred to in paragraph G2.1 above.

Year ended 31/12/86

G2.15 The Underwriter's Report gave a more detailed breakdown than in previous years of the percentage of premium income attributable to each of the various categories of business written. The split between short-tail and long-tail business was also shown:

Year of Account	Short-Tail (%)	Long-Tail (%)
1984 (36 months)	73	27
1985 (24 months)	79	21
1986 (12 months)	76	24

G2.16 This was further confirmation that this was a predominantly short-tail syndicate, although comparison with the information given in the previous year's accounts would have indicated an increase in long-tail business; the ratio of short to long-tail business on the 1984 account after two years had been stated at 79/21 and on the 1985 account after one year it had been 87/13.

G2.17 The time and distance policy (see paragraph G2.10 above) was amended on 14th April 1987 additionally to protect the 1984 and prior years of account. At the same time, the excess point for the policy was increased by $4m to $8,428,275. The reason for the increase in this excess point is unclear to us and Mr Judd was unable to give any explanation although a telex dated 13th April 1987 from Mr Gough to Pinnacle stated that the increase in the excess point had been requested by the reassured. Initially, we thought that the change might have been required by Outhwaite in connection with the timing risk reinsurance policy referred to above but, as Mr Robertson told us that this timing risk policy expired after one year, this does not appear to be the explanation.

G2.18 The Underwriter's Report also contained the following statement:

"Closed Year

The improvement in the Non-Marine Market which had been subject to competition and unsatisfactory rate levels particularly in North America did not occur until the latter part of the year which was too late to have any real effect on the Underwriting Account. Poor underwriting results were experienced in North American property business and the run-off of the Drilling Rigs, Personal Accident and Aviation Excess of Loss..."

G2.19 The Notes to the Accounts contained the following statement:

"REINSURANCE TO CLOSE

The Syndicate has reinsured its 1980 account and all prior years with effect from 1st January, 1983 with Lloyd's underwriters on an unlimited basis excess of US$9,000,000. The settlements to 31st December, 1986 have eroded the Syndicate's retention in the amount of US$7,889,347. For the 1983 account to close, a whole account aggregate reinsurance policy was purchased in the amount of US$7,250,000 excess of $4,428,275 with no timing restrictions for recovery. This policy has been extended at no additional charge to include the 1984 account for settlements on and after 1st January, 1987 with an additional excess of $4,000,000, and is protected by securities held by the Bank of America NT & SA, London, England. The balance of indemnity not already recovered will be reclaimed in specified amounts on fixed dates between 1992 and 1996.

	1984 Account	*1983 Account*
Reinsurance to close premium shown in the underwriting account	£6,808,290	*£3,670,058*
Amount calculated in relation to 1981 and subsequent years before anticipated recovery under aggregate protection policy	10,956,498	*8,053,981*
Add 1980 and prior - balance to excess point	750,441	*616,077*
Less credit taken for anticipated recovery	(4,898,649)	*(5,000,000)*
Net reinsurance to close premium as above	£6,808,290	*£3,670,058*

Again, there was no specific reference to the Meacock policies mentioned at paragraph G2.1 above. The reference to the absence of timing restrictions on the policy for $7.25m was inconsistent with Mr Robertson's assertion that the timing risk policy was for one year only. (Mr Outhwaite had signed the slip on 29th April 1986 and Syndicate 164's accounts were dated 15th May 1987). The reference to "the balance of the indemnity" in the last sentence of the passage set out above is also surprising if there were no timing restrictions under the policy.

G2.20 A further undisclosed policy (Ref: 87DP00111) had been purchased from Pinnacle on 9th May 1987 to protect the 1984 year of account providing an indemnity of $2m (for a premium of $945,000) which was collectable as to up to $1m at 15th May 1997 with the balance (up to $2m in all) collectable on or after 15th May 1998. This policy was purchased to ameliorate the certain loss to Syndicate 164 which would in due course arise from a timing risk reinsurance underwritten by Syndicate 164 (as a retrocessionaire of Meacock Syndicate 727) in respect of a Syndicate 290 time and distance policy purchased from Pinnacle (see paragraph J2.10).

G2.21 Yet another undisclosed (in-account) policy (Ref: T86G054) had been purchased from Pinnacle in January 1986 for a premium of $995,000 in respect of the 1986 and prior years. The policy provided an indemnity of $1.2m recoverable on 15th February 1989.

Year ended 31/12/87

G2.22 The Underwriter's Report described the nature of the business written by the syndicate and stated that "The Syndicate during the past years has always maintained a good balance between Short and Long Tail (Casualty) business". Once again, an analysis of premium income by business category was provided and the split between short-tail and long-tail business was as follows:

Year of Account	Short-Tail (%)	Long-Tail (%)
1984 (36 months)	73	27
1985 (36 months)	74	26
1986 (24 months)	69	31
1987 (12 months)	63	37

G2.23 It could therefore be seen that the business written was predominantly short-tail, although the long-tail proportion was increasing. It is again noteworthy that the proportion of long-tail premium income increased as the year of account developed.

G2.24 There was also reference to deterioration on the closed years of account:

> "The settlements during the year were higher than expected. On the sterling account ex gratia payments were made on Professional Indemnity policies for the Corporation of Lloyd's 1982 account for £32,200 and Richard Beckett Underwriting Agencies Limited 1984 account for £159,450 regarding The PCW Settlement Offers.
>
> The excess of loss sterling account for 1983 and 1984 also suffered sizeable settlements. Further, the US Dollar account shows high settlements on 1981, 1982 and in particular 1984 account.
>
> The reinsurance to close 1984 account and previous years shows a deficit of £1,836,747. The deficiency disclosed regrettably reduces the 1985 account result".

G2.25 The Underwriter's Report also contained the following statements:

> "... the 1985 account has closed with a profit ...
>
> <u>Reinsurance Arrangements</u>
>
> ... We wish to bring to your notice that the 1980 account and all previous years were reinsured out with 100% Lloyd's Security on an unlimited basis excess of the reinsurance to close the 1980 account. During 1987 there was a further deterioration in the asbestos and latent disease potential claims etc, protected by this reinsurance, but this will not affect the syndicate's results. The 1983 account has been protected by a substantial aggregate cover amounting to some $7,250,000 which has been extended to include the 1984 account. This is in addition to the reinsurance to close shown in the accounts ...
>
> <u>Closed Year</u>
>
> ... The 1985 result produced an underwriting profit of £2,762,695, an improvement over the 1984 year.
>
> Following a higher than usual frequency of new outstanding loss advices and settlement of claims during 1987, it has been necessary to substantially increase the provision for outstanding liabilities for the years 1981 to 1984. This is due to new outstanding loss advices mainly in respect of the Excess of Loss writings.
>
> The settlements during the year were higher than expected...

Open Years

... Although the settlements indicate good results for both open years the final predictions at this stage are subject to the normal underwriting uncertainties, and the final outcome of the UK Continental Hurricane affecting 1987."

G2.26 The Notes to the Accounts disclosed Syndicate 164's "Special Contracts" - including (see (B) below) for the first time reference to the two Meacock policies described at paragraph G2.1 above:

"REINSURANCE-SPECIAL CONTRACTS

The Syndicate has effected certain United States dollar reinsurance contracts as follows:-

(A) ASBESTOS ONLY	One-third of all asbestos liability placed with 100% Lloyd's security.
(B) WHOLE ACCOUNT	Policies for $6,000,000 placed with 100% Lloyd's security.
(C) WHOLE ACCOUNT	Unlimited policy for all settlements but taking credit for recoveries received from above two contracts - placed with 100% Lloyd's security.
(D) AGGREGATE STOP LOSS	Policy for $7,250,000 indemnity protected by a security fund agreement issued by an authorised bank in the United Kingdom.

Payment Date	Years of Account to which Policy applies	Premium US$	Recovery due date
(A) 3 Oct 1982	1977 and previous	696,667	Anytime
(B) 19 Dec 1982	1980 and previous	3,600,000	Anytime
(C) 19 Dec 1982	1980 and previous	1,000,000	Anytime
(D) 23 Mar 1986	1984 and previous	4,150,000	From 15 May 1992

...

(i) The credit taken for Policies A, B and C in the Reinsurance recoveries anticipated amounts to £8,678,905 as at 31st December, 1987 (£7,907,276 at 31.12.86).

(ii) The credit taken for the aggregate stop loss in 1986 (£4,898,649) is different from the 1987 (£3,856,383) credit due to the change in the rate of exchange from \$1.48 to \$1.88 = £1."

G2.27 The description of policy (D) is interesting in that recoveries were shown as being due from 15th May 1992 (which was consistent with the suggestion that the Outhwaite timing risk reinsurance was no longer in place - see paragraphs G2.11 and G2.19 above).

G2.28 There was no reference to a further policy protecting the 1987 year of account purchased from Pinnacle on 4th November 1987 (Ref: DA5552NOO) under which no recoveries were payable until 11th May 1990. Apart from the limitation as to timing on recoveries, this policy had every appearance of being part of Syndicate 164's conventional reinsurance programme. In fact, most of the premium for this policy was provided by the return of premium from (unrelated) Syndicate 970 (Ref: 84MX01780) for which Syndicate 164 had previously written a timing risk reinsurance which had subsequently been cancelled (see Appendix 10). The Syndicate Auditors have suggested that Policy DA5552NOO was a risk-bearing contract, not a time and distance policy. No other party has made any such suggestion.

G2.29 There was again no reference to Policy 87DP00111 - see paragraph G2.20 above. An additional premium of \$438,000 was paid on 4th August 1987 to alter the policy terms so that recoveries could be made sooner (commencing 15th November 1993). This additional premium was debited to the 1985 account. There was also again no reference to Policy T86G054 (see paragraph G2.21 above).

G2.30 A further (in-account) policy (Ref: T87G184) was purchased from Manufacturers P&C Limited on 15th January 1987 for a premium of \$1,035,000 to pay (on 15th February 1990) up to \$1.2m excess of \$5m in respect of all losses occurring during 12 months at 31st January 1987 for all years of account.

<u>Year Ended 31/12/88</u>

G2.31 An analysis of net premium income was again provided in the Underwriter's Report and the split between short-tail and long-tail business was set out as follows:

Year of Account	Short-Tail (%)	Long-Tail (%)
1985 (36 months)	74	26
1986 (36 months)	69	31
1987 (24 months)	68	32
1988 (12 months)	73	27

G2.32 The Underwriter's Report also contained the following statements:

"Reinsurance Arrangements

I wish to bring to your notice that the 1980 account and all previous years were reinsured out with 100% Lloyd's Security on an unlimited basis excess of the reinsurance to close the 1980 account. During 1988 there was a further deterioration in the asbestos and latent disease potential claims etc, protected by this reinsurance...

United Kingdom/Continental Hurricane 16th October 1987

My last report informed you of the severe damage caused by this Hurricane, affecting private householders, commercial, industrial and farming communities. The writings in the open market have settled claims for £413,000 and further outstanding losses of £86,000. The Syndicate reinsurance protecting this section of the account operates excess of £12,500 retained net and there is protection for a further £14,500,000 so this loss will be contained well within the protections... The business written under the General Excess of Loss writings is now showing the full impact of this loss. Claims have been paid of £9,798,000 and there are further outstanding losses of £8,137,000. The Syndicate reinsurance protecting this section of the account operates after the self-insured aggregate loss retention of £300,000 maximum is exhausted and there is protection for up to a further £22,000,000 to protect the Syndicate.

From the information to hand it is estimated that the possible loss to the Syndicate will be £40 million. There is £22 million of reinsurance protection available leaving a shortfall of £18 million.

With the balance on the underwriting account at 31.12.88 from which will be deducted the paid claims occurring during the next twelve months and allowing provision for the RITC for the 1987 year I estimate the loss to be 20% of a Member's underwriting limit.

Should there be any significant change in my estimates you will be informed...

Market Capacity

...Some Underwriters both within Lloyd's and outside the market, feel pressure to write more business in order to maintain income levels to meet ever rising expenses and this action is causing rates to be even further depressed in the downwards spiral. This Syndicate has never, and will not be writing business simply in order to maintain Syndicate premium income levels, but will conduct its underwriting on the basis of 'risk assessment' and hopefully make a profit for the names. I cannot see in the immediate future a change in this situation and I shall have to wait until the hard lessons of poor underwriting results have again been learned before insurers at home and abroad return to sound underwriting practice...

Summary

The 1987 account is now showing the full impact of the 'October Hurricane' and regrettably will result in an underwriting loss to the Members.

The 1988 account looks satisfactory and is free of any major catastrophe and should be profitable..."

G2.33 The Notes to the Accounts contained the following statement:

"REINSURANCE-SPECIAL CONTRACTS

The Syndicate has effected certain United Stated [sic] dollar reinsurance contracts as follows:

(A) ASBESTOS ONLY	One-third of all asbestos liability placed with 100% Lloyd's security.
(B) WHOLE ACCOUNT	Policies for $6,000,000 placed with 100% Lloyd's security.

(C) WHOLE ACCOUNT	Unlimited policy for all settlements but taking credit for recoveries received from above two contracts - placed with 100% Lloyd's security.
(D) AGGREGATE STOP LOSS	Policy for $7,250,000 indemnity protected by a security fund agreement issued by an authorised bank in the United Kingdom.

Payment Date	Years of Account to which Policy applies	Premium US$	Recovery due date
(A) 3 Oct 1982	1977 and previous	696,667	Anytime
(B) 19 Dec 1982	1980 and previous	3,600,000	Anytime
(C) 19 Dec 1982	1980 and previous	1,000,000	Anytime
(D) 23 Mar 1986	1984 and previous	4,150,000	From 15 May 1992

(i) The credit taken for Policies A, B and C in the Reinsurance recoveries anticipated is:

	1986 Run-Off Account	1985 Closed Account
(A)	1,401,989	1,224,308
(B)	1,134,656	2,210,442
(C)	7,836,271	5,244,155
	£10,372,916	£8,678,905

(ii) The credit taken for the aggregate stop loss in 1987 (£4,005,525) is different from the 1987 (£3,856,383) credit due to the change in the rate of exchange from $1.88 to $1.81 = £1."

G2.34 Again, policy (D) was shown as having recoveries due from 15th May 1992 consistent with the expiry of the Outhwaite timing risk reinsurance mentioned in paragraph G2.11.

G2.35 There was no disclosure of the following policies:

(a) DA5552N00 referred to in paragraph G2.28 above;

(b) T86G054 (for which a recovery of $1.2m had been accrued in the results for the 1986 year of account) - see paragraph G2.21 above;

(c) T87G184 (see paragraph G2.30); and

(d) 87DP000111 for $2m with Pinnacle (see paragraph G2.20 above).

G2.36 A further (in-account) policy (T88G184) dated 15th January 1988 was purchased from Manufacturers P&C Ltd at a premium of $1,035,000. This policy provided coverage for all years of account in respect of all losses occurring during 12 months at 1st January 1988 with an indemnity of $1,275,000 excess of $5m payable on 15th February 1991.

G2.37 We have seen no evidence of the production of cash flow forecasts at the time of calculating the year end reserves for the 1986 year of account (which remained open due to the dispute with Merrett regarding the unlimited run-off policy protecting the 1980 and prior years).

<u>Year Ended 31/12/89</u>

G2.38 The Underwriter's Report stated, as it had in previous years, that "During the past years the syndicate has always maintained a good balance between Short and Long Tail (Casualty) business". The split between short-tail and long-tail business was as follows:

Year of Account	Short-Tail (%)	Long-Tail (%)
1986 (36 months)	69	31
1987 (36 months)	68	32
1988 (24 months)	78	22
1989 (12 months)	71	29

G2.39 The Underwriter's Report also contained the following statements:

"REINSURANCE ARRANGEMENTS

... I mentioned in my last report that 1980 and previous years were reinsured out with 100% Lloyd's security on an unlimited basis excess of the reinsurance to close 1980 Account and that we were in dispute with Merrett Underwriting Management Limited. As you know, that dispute has now been settled by Arbitration and a declaration made that the reinsurance contract is valid and effective. You have also been informed that "Merrett" now seek leave to appeal regarding the "excess point" in the reinsurance contract...

1987 CLOSED YEAR

I mentioned in my last report the severe damage caused by the United Kingdom/Continental Hurricane on the 16th October 1987. Losses arising from the "Open Market" account now show settled losses of £488,306 and further outstanding claims of £54,723. It is now anticipated that there will be no significant increase in these amounts and the loss will be contained within the reinsurance protection. However the "Excess Loss"Account now shows settled losses of £23,121,289 and further outstanding claims of £6,534,608. It is calculated that the final projected loss position for this catastrophe will total £35,300,000 with reinsurance protection available of £22,000,000 which results in a shortfall of £13,300,000 having to be retained net by the Syndicate...

The final result for the year will produce an underwriting loss of £4,395,845, which fortunately is not as bad as I feared a year ago.

OPEN YEARS

...1989 - The account shows a settlement of 43.87%, which is 31.20% higher than 1988 at 12 months and is mainly due to Hurricane Hugo, which swept across the South Carolina Coast on the 17th September 1989 causing severe damage to property. It is very difficult at this early stage to calculate what the full effect of "Hugo" will be arising from the "Excess Loss" account. With increased reinsurance protection available for this catastrophe it is hoped that the loss will be contained within the reinsurance. Should there be any significant change in this situation you will be informed. Losses arising from the "Open Market" account should be contained within reinsurance protections.

On the 17th October 1989 an Earthquake occurred in San Francisco and surrounding areas, but fortunately this loss is not as severe to Lloyd's as first thought and should be contained within the Syndicate's reinsurance programmes for both "Excess Loss" and "Open Market" business.

I hope this year will show a profit but my prediction must be subject to normal underwriting uncertainties...

1990 WEATHER CONDITIONS

The commencement of the 1990 Underwriting account has experienced unprecedented freak weather conditions resulting in storm damage in the United Kingdom and Europe on the following dates:

25th-26th January 1990, 27th January 1990
3rd-4th February 1990, 26th-27th February 1990.

At this very early stage it is not possible to forecast with any certainty or accuracy the potential loss involvements to the Syndicate. As soon as more information becomes available for an assessment to be made you will be informed.

SUMMARY

... The 1989 account has been affected by Hurricane Hugo. This year has the benefit of an increased reinsurance programme and I hope the year will show a profit ...

Full information will be given to you as soon as possible regarding the 1990 Weather losses ..."

G2.40 The Notes to the Accounts stated that:

"REINSURANCE-SPECIAL CONTRACTS

The Syndicate has effected certain United States Dollar reinsurance contracts as follows:

(A) ASBESTOS ONLY	One-third of all asbestos liability placed with 100% Lloyd's security.
(B) WHOLE ACCOUNT	Policies for $6,000,000 placed with 100% Lloyd's security.

(C) WHOLE ACCOUNT	Unlimited policy for all settlements but taking credit for recoveries received from above contracts - placed with 100% Lloyd's security.
(D) AGGREGATE STOP LOSS	Policy for $7,250,000 indemnity protected by a security fund agreement issued by an authorised bank in the United Kingdom.

Payment Date	Years of Account to which Policy applies	Premium US$	Recovery due date
(A) 3 Oct 1982	1977 and previous	696,667	Anytime
(B) 19 Dec 1982	1980 and previous	3,600,000	Anytime
(C) 19 Dec 1982	1980 and previous	1,000,000	Anytime
(D) 23 Mar 1986	1984 and previous	4,150,000	From 15 May 1992

(i) The credit taken for Policies A, B and C in the Reinsurance recoveries anticipated is:

	1986 Run-Off Account	1985 Closed Account
(A)	1,416,043	1,224,308
(B)	1,305,527	2,210,442
(C)	8,553,023	5,244,155
	£10,274,393	£8,678,905

(ii) The credit taken for the aggregate stop loss in 1989 (£4,503,106) is different from the 1988 (£4,005,525) credit due to the change in the rate of exchange from $1.81 to $1.61 = £1."

Again, policy (D) was shown as having recoveries due from 15th May 1992, consistent with the non-renewal of the Outhwaite timing risk reinsurance mentioned in paragraph G2.11.

G2.41 There was no mention of the recovery of $500,000 made in respect of Policy DA5552N00 on 11th May 1990, the proceeds of which were accrued to the closing 1987 account as at 31st December 1989.

G2.42 There was also no mention of the recovery of $1.2m in relation to Policy T87G184 in January 1990 which was accrued to the closing 1987 account.

G2.43 There was no reference in the accounts to Policy T89G184, a further (in-account) time and distance policy purchased on 10th January 1989 and protecting the "reinsured's whole account, all years of account ... in respect of all losses occurring 12 months at 1st January 1989". The policy limit was "$1,505,000 excess of $5m (or to be advised) ... aggregate net retained settlement to the syndicate". The premium for this policy was $1,195,000 (recoverable on 15th February 1992) and the policy was purchased from Manufacturers P&C Limited. The policy wording indicated that it was to protect all years of account, although Syndicate 164 treated the policy as relating to the 1989 pure year and the premium was debited to the 1989 account.

G2.44 There was again no reference to Policy 87DP000111 for $2m with Pinnacle (see paragraph G2.20 above), nor to Policy T88G184 purchased from Manufacturers P&C Ltd (see paragraph G2.36).

G2.45 We have found no evidence of the production of cash flow forecasts when the 31/12/89 year end reserves were being calculated for the 1986 open year.

Year Ended 31/12/90

G2.46 The Underwriter's Report indicated that short-tail business was the predominant part of the account and that "It has been the policy of the syndicate during the past years to maintain a good balance between Short and Long Tail (Casualty) business". The split between the two was as follows:

Year of Account	Short-Tail (%)	Long-Tail (%)
1986 (36 months)	69	31
1987 (36 months)	68	32
1988 (36 months)	76	24
1989 (24 months)	76	24
1990 (12 months)	74	26

G2.47 A Note to the Underwriter's Report in respect of the 1986 account stated as follows:

> "5. 1986 YEAR LEFT OPEN AT 31.12.90
>
> The progress of the open year during 1990 showed a deterioration and the amount retained to meet all known and unknown outstanding liabilities disclosed a deficit of £2,558,931. This was due to the adjustment of the excess point on the Merrett unlimited reinsurance from $17,708,940 up to $19,250,000 and the creation of substantial loadings on old years to adjust the reserving provisions".

In this context the "old years" related to the 1981 to 1985 accounts, the prior years having been reinsured with Merrett and Outhwaite on an unlimited basis.

G2.48 The Underwriter's Report also contained the following statements:

> "REINSURANCE ARRANGEMENTS
>
> The largest "open market" loss ever sustained in the history of the Syndicate was Hurricane Hugo in 1989 and amounted to $5 million, which on an "as if" basis would be well contained within the present level of protection for 1991. The reinsurance programmes effected for 1991 account are the best that can be obtained in the present conditions. This situation will be kept under constant review and should conditions improve protections will be reviewed accordingly...

1988 CLOSED YEAR

...The progress of the 1987 year during 1990 was much more satisfactory than expected and disclosed a surplus of £2,411,290. This was due to an improvement in the projection of the final loss position of the 1987 Hurricane and a general improvement on the balance of the account.

OPEN YEARS

1989 - Competition continued throughout World-Wide markets. On the 17th September 1989, Hurricane Hugo struck the Caribbean and Carolina coast of the USA causing catastrophic damage to property, and a major loss to the insurance industry. Syndicate 164 had increased reinsurance protections for its Excess Loss Account for this year and when I reported to the Members last year, and from the information available at that time, it appeared the loss would be contained within the limits of the available reinsurance. I am sorry to say that during 1990 settlement of claims and advices of outstanding losses have built up, with a phenomenally high settlement of claims experienced during the 3rd and 4th quarters.

From the information now available I estimate the final loss projection for this Catastrophe to the Syndicate will be £60m, exceeding available reinsurances by £22m, therefore this will result in a loss to the Syndicate of approximately 30% of a Member's Underwriting limit.

I regret that a cash call of 30% will have to be made to provide working capital for the Syndicate. This situation will be kept under constant review and should there be any significant deterioration you will be advised.

I am pleased to say that the San Francisco Earthquake, which occurred on the 17th October 1989, is contained within reinsurance protections for both Excess Loss and Open Market business...

This year, as you have already been advised, suffered unprecedented freak weather conditions during January and February with resultant widespread damage in the United Kingdom and Europe. At this present time I feel that with the increased Sterling reinsurance protection of £48.3m as shown on page 2 of the report, and from the information available to date it appears that the loss should be contained, and at this early stage in the development of the year it would indicate a profitable result..."

G2.49 The Notes to the Accounts stated:

"REINSURANCE-SPECIAL CONTRACTS

The Syndicate has effected certain United States Dollar Reinsurance contracts as follows:

(A) ASBESTOS ONLY	One-third of all asbestos liability placed with 100% Lloyd's security.
(B) WHOLE ACCOUNT	Policies for $6,000,000 placed with 100% Lloyd's security.
(C) WHOLE ACCOUNT	Unlimited policy for all settlements but taking credit for recoveries received from above contracts - placed with 100% Lloyd's security.
(D) AGGREGATE STOP LOSS	Policy for $7,250,000 indemnity protected by a security fund agreement issued by an authorised bank in the United Kingdom. The present value of the indemnity at 31st December 1990 is $5,700,000.

Payment Date	Years of Account to which Policy applies	Premium US$	Recovery due date
(A) 3 Oct 1982	1977 and previous	696,667	Anytime
(B) 19 Dec 1982	1980 and previous	3,600,000	Anytime
(C) 19 Dec 1982	1980 and previous	1,000,000	Anytime
(D) 23 Mar 1986	1984 and previous	4,150,000	From 15 May 1992

(i) The credit taken for Policies A, B and C in the Reinsurance recoveries anticipated is:

	1986 Run-Off Account
(A)	1,311,461
(B)	---
(C)	9,234,387
	£10,545,848

(ii) The credit taken for the aggregate stop loss in 1990 (£3,756,477) is different from the 1989 (£4,503,106) credit due to the change in the rate of exchange from \$1.61 to \$1.93 = £1."

G2.50 Again, policy (D) was shown as having recoveries due from 15th May 1992. There were again no references to the following:

(a) Policy T88G184, for which a recovery of \$1,275,000 had been accrued on the closing of the 1988 account.

(b) Manufacturers P&C Ltd Policy T89G184.

(c) The Pinnacle policy for \$2m.

G2.51 Again, we have seen no evidence of the production of cash flow forecasts at the time the year end reserves were calculated for the 1986 open year.

G3. Syndicate 290

Year Ended 31/12/83

G3.1 The combined Underwriter's and Managing Agent's Report stated as follows:

> "The Syndicate specialises in Excess Loss Non-Marine reinsurance and there has been no major shift of underwriting policy since our commencement in 1974. We continue to write catastrophe reinsurance which covers fire, windstorm, flood and earthquake, this being reinsurance of Lloyd's Underwriters and worldwide insurance companies. We also write a very limited book of casualty excess loss business, but in the past two years we have been reducing our lines and refusing renewals, but owing to the substantial increase in rates in this class of business our premium has been keeping about the same. We also write aviation and drilling rig excess of loss business".

G3.2 Prior to the closing of the 1981 account at 31st December 1983, a time and distance policy (Ref: 84MX01776) was purchased for a premium of $3,495,000. The existence of this policy was not disclosed in the accounts but it had a material impact on the result reported. Furthermore, the timing risk and part of the indemnity ($2,150,000 out of a total of $8,150,000) were reinsured by Meacock Syndicate 727 and then retroceded into Syndicate 164 (see Section J2 for further details). The Syndicate Auditors have suggested that Policy 84MX01776 was a risk-bearing policy but see paragraph G3.23 below where the Syndicate Auditors on 21st March 1986 expressly referred to this policy as a "Time and Distance Policy".

G3.3 The combined Report also contained the following statements:

> "We do at all times make every effort to keep the reserves of the Syndicate as strong as possible. This is done by the reinsurance carried out of the closed year which is also backed up by Excess Loss and Stop Loss Reinsurance.
>
> ...
>
> <u>Closed Year</u>
>
> As anticipated last year, the 1981 account has closed with a very good profit, we had an improvement in our investments but a reduction in pure underwriting profit".

G3.4 We assume that the reference to stop loss reinsurance was intended to encompass the time and distance policy referred to in paragraph G3.6 below. The "pure underwriting profit" referred to above would have been a loss but for the use of time and distance reinsurance.

<u>Year Ended 31/12/84</u>

G3.5 The Underwriter's Report again suggested that the syndicate's casualty business was limited but it disclosed for the first time the level of protection provided by the time and distance (stop loss) programme:

> "<u>Reinsurance</u>
>
> We have in force a major reinsurance programme to protect us; this covers the whole account protection and is backed up by specific reinsurance for the different classes. This programme is placed by major Lloyd's Brokers with the largest proportion placed in the Lloyd's market. We are very careful with Company security and will only accept first class companies.

The 1981 (and prior) Account was protected by substantial aggregate Stop Loss cover amounting to some $8,150,000. This has now been extended to cover 1982 at minimal net cost.

Closed Year

We are pleased to report that in these difficult times we have been able to make a profit on the 1982 Account. It is not as good a result as predicted last year as we have taken into account the Market trend which is showing a marked deterioration in the Non-Marine Market and may in due course produce claims on this syndicate".

G3.6 The stop loss protection referred to above was provided by way of Policy 84MX01776 purchased from Pinnacle in the amount of $8,150,000 excess of $9m (in other words, the policy would only begin to pay when the syndicate had, commencing on 1st January 1984, settled claims in excess of $9m). The securities deposited with Bank of America under the terms of the SFA were due to mature on 31st March 1991, although the policy itself contained no restrictions as to when claims could be made. Section 3 of the SFA referred to a Lloyd's reinsurance of Pinnacle. This Lloyd's reinsurance was provided by Meacock Syndicate 727 - see paragraph G3.2 above.

G3.7 The policy was extended to cover the 1982 year of account at an additional premium of $10,000. The extended policy was negotiated so that the claims paid by the syndicate during the 1984 calendar year were to be ignored in the calculation of the excess point. Thus, with effect from 1st January 1985, the level of paid claims was deemed to have reverted to zero thus reinstating the full excess point (or the value of claims to be settled by the syndicate) before any claim could be lodged with reinsurers. To assess the impact of this variation, it is necessary to ascertain what was then known to have been settled in 1984. These figures have been supplied to us by the Syndicate Auditors in the form of detailed paid and outstanding loss triangulations for Syndicate 290 (see Appendix 15). During 1984, Syndicate 290 settled $1,990,362 on its 1981 and prior accounts. We have seen a telex dated 8th May 1985 from Mr Goodier to Pinnacle stating that this variation was requested by the syndicate.

G3.8 The Underwriter's Report also contained the following statement:

"Future

...The reinsurances protecting the syndicate are at all times under constant review and we believe our current policy covers the needs of the syndicate and is the best available".

G3.9 It would appear that when auditing the accounts at 31st December 1984, that is, while closing the 1982 year of account, the Syndicate Auditors raised a number of questions about Policy 84MX01776 which had incepted in May 1984 and protected the 1981 and prior years of account. The Syndicate Auditors wrote to GWL on 15th February 1985 raising the following points:

> "The agreement refers to "aggregate excess of loss reinsurance treaty number P84010" whereas the cover note and the wording refer to aggregate excess of loss reinsurance agreement number 84MX01776. Can you please confirm that they are both referring to the same agreement and explain the difference in the numbering.
>
> Can you please explain the reference to "Lloyd's reinsurance contracts number P84010R issued to Pinnacle Reinsurance Co Limited" in this paragraph.
>
> Under this section the Bank agrees to provide copies of activity reports following the end of each calendar year. Would you please ask for a copy of the activity report at the 31 December 1984 and let me have it".

G3.10 This letter was passed to the brokers (GSW) who responded as follows:

> "1. In response to Littlejohn's questions the Reference No 84MX01776 is Goldings' Cover Note No. , whereas Reference P84010 is Pinnacle's unique Contract Reference.
>
> 2. The reference to Lloyd's Reinsurance Contract P84010R is to a Contract of specific Reinsurance related to the original Contract which Syndicate 290 effected through our intermediary with certain other Lloyd's Syndicates (unrelated to Syndicate 290) for a portion of Pinnacle's exposure under the original Contract.
>
> 3. Bank of America will be producing within the next few days the relevant Activity Report. Should Littlejohn have any problems they might care to contact Bruce Swann at Bank of America, 25, Cannon Street".

<u>Year Ended 31/12/85</u>

G3.11 The business written by the syndicate was reported to be the same as for 1984. Future developments were not thought to necessitate any changes in underwriting strategy but drilling rig underwriting was mentioned.

G3.12 The Underwriter's Report contained the following statements:

"Reinsurance

We have in force a major reinsurance programme to protect us. This covers the whole account protection and is backed up by specific reinsurance for the different classes. This programme is placed by major Lloyd's Brokers with the largest proportion placed in the Lloyd's market. We are very careful with Company security and will only accept first class companies. The 1983 (and prior) Account has been protected by substantial aggregate Stop Loss cover which now amounts to some $13,150,000; this is in addition to the reserves shown in the accounts.

Closed Year

We are more than pleased to report a profit for the 1983 account. This year has been one of the most difficult years in which to make a profit. As we advised you last year the Syndicate suffered from large losses on the Hurricane Alicia in the USA and further large claims caused by the winter freeze in North America. This year has been one of the worst years for claims since we commenced, but with the purchase of reinsurance we have been able to close with a reasonable profit.

...

Future

... We intend to keep in force our current reinsurance programme and, if the market is available, to expand our protections".

G3.13 In April 1986, Syndicate 290 purchased a further time and distance policy (Ref: 86DP00110) for $5m excess of $17,150,000 at a premium of $3,040,000. The policy covered losses settled after 1st January 1986 and protected the 1983 and prior years of account. Thus, the 1982 and prior years of account had protection of $8,150,000 (see paragraph G3.6 above) and the 1983 and prior years of account had protection of $5m, amounting to $13,150,000 in total. A large part of the premium for this policy came from the commutation of Policy 85MX01881 (see Appendix 10).

G3.14 On 12th March 1985, Syndicate 290 paid a premium of $2.6m to Pinnacle for an indemnity of $3.5m in respect of all losses occurring during 12 months at 1st January 1985 in respect of all prior years, with recoveries commencing 31st March 1988 (Ref: 85007). This policy was never disclosed in the syndicate accounts but was ultimately collected as a total loss on 29th March 1988.

G3.15 A further policy (Ref: 85MX01881) was purchased in May 1985 for a premium of $1,275,000 providing cover of up to $6m in respect of policies signed to the reinsured's 1984 account in respect of all losses settled on or after 1st January 1985. Although the documentation was less than clear on this point, it would appear that recoveries could be made under the policy from 15th February 1989. The following additional premiums were paid pursuant to an endorsement dated 31st December 1985 to provide cover in respect of the 1985 and 1986 years of account:

	£
6th January 1986	1,220,000
15th April 1986	1,220,000
TOTAL	2,440,000

However, a decision seems then to have been taken (endorsement dated 1st May 1986) to cancel the policy with effect from inception (1st January 1985) with the full premium ($3,715,000) being returned on 27th April 1986. In fact, the premium was not received by the syndicate but was put towards the purchase of two new policies (Refs: 86DP00109 and 86DP00110). (See Appendix 10).

<u>Year Ended 31/12/86</u>

G3.16 The business described in the Underwriter's Report was the same as for 1984 and 1985 and, in addition, the percentage of premium income in each category was given.

G3.17 The Underwriter's Report also contained the following statements:

> "<u>Reinsurance</u>
>
> We have in force a major reinsurance programme to protect us. This covers the whole account protection and is backed up by specific reinsurance for the different classes. There has been no major change in our protection. This programme is placed by major Lloyd's Brokers with the largest proportion placed in the Lloyd's market. We are very careful with Company security and will only accept first class companies.

The 1983 (and prior) Account has been protected by substantial aggregate Stop Loss cover which now amounts to some $13,150,000; this is in addition to the reinsurance to close shown in the Accounts. This reinsurance is placed with an overseas company which is backed up by a security fund agreement with a major American bank.

Closed Year 1984 Account

In closing the 1984 account we are pleased to report a profit. The year was not marked by any particular major loss and the claims settlements seemed to come mainly from large numbers of smaller claims. This year was the last year before the substantial increases in rates, as the effect of Hurricane Alicia in the United States had not really come through to the market. The performance of the reinsurance to close received by the closed year of account has shown a deterioration on some years, and this we have taken into account in the closing of this year.

...

Future

... As we have advised all our Names in the past, this Syndicate is a High Risk by the nature of the business it writes and we have nearly reached the limit of Reinsurance that is worth buying.

We must always live with the problem which must apply to all Syndicates that in the event of a major loss we could run out of reinsurance protection, but we have produced good results in the past ten years and we can but await future losses which we hope will be contained within our reinsurance programme".

G3.18 On 15th May 1987, the Directors of GWL approved the accounts of Syndicate 290 for the year ended 31/12/86. These accounts contained the statement that:

"The performance of the reinsurance to close received by the closed year of account has shown a deterioration on some years".

G3.19 It is interesting to note that, in June 1987 (after the accounts for the year ended 31/12/86 had been signed), two of the time and distance policies which protected Syndicate 290 were amended as follows:

Policy 84MX01776

(a) The indemnity was increased from $8,150,000 to $9,150,000 on payment of an additional premium of $350,000;

(b) The policy excess was increased by $1,000,000 to $10,000,000;

(c) Despite a deterioration on back years, claims paid in calendar years 1985 and 1986 were to be ignored in the calculation of the excess point;

(d) The 1983, 1984 and 1985 years of account were added;

(e) Maturity of funds held in the SFA (which had originally been due to mature on 31st March 1991) was rescheduled as follows (although the policy itself still contained no limits on when claims could be made under the policy):

New Amount	New Payment Date	Old Amount	Old Payment Date
$ 2m	15/5/91	$8.15m	31/3/91
$ 2m	15/5/92	-	-
$5.15m	15/5/93	-	-

Settlements during 1985 and 1986 in respect of the 1982 and prior years of account amounted to $2,757,875. Thus, by the time the variation to the policy was effected on 26th June 1987, Syndicate 290 had agreed to ignore for the purpose of calculating the excess point claims payments amounting to at least $4,748,237 or over half of the original excess.

Policy 86DP00110

(a) The indemnity was increased from $5m to $13m on payment of an additional premium of $3,815,000;

(b) The policy excess was increased by $2,000,000 to $19,150,000 (to reflect the amendments to underlying policy 85MX01776 above);

(c) Claims of $794,154 paid in calendar year 1986 were to be ignored in the calculation of the excess point and two further years of account were added; and

(d) Projected settlement of funds under the policy was rescheduled as follows:

New Amount	New Payment Date	Old Amount	Old Payment Date
$3m	15/5/94	$1m	15/2/91
$3m	15/5/95	$1m	15/2/92
$3m	15/5/96	$1m	15/2/93
$1m	15/5/97	$2m	15/2/94
$1m	15/5/98	-	-
$2m	15/5/99	-	-

G3.20 It thus appears that the Directors of GWL were prepared, within one month of acknowledging that the back years were deteriorating, in effect to ignore for the purpose of calculating the excess point claims payments on a number of years of account in the amount of $3,552,029 and to defer collections further into the future.

G3.21 A Note to the Accounts for the year ended 31st December 1986 provided further information about the Syndicate's time and distance programme:

> "Reinsurance to Close
>
> The Syndicate has two whole account aggregate reinsurance policies: in respect of 1982 account and prior for $8,150,000 excess of $9,000,000 and for 1983 account and prior for $5,000,000 excess of $17,150,000. There are no timing restrictions regarding recoveries on the 1982 policy; however the 1983 policy imposes an interest charge of 2% over the Euro-Dollar 12 months deposit rate for any recoveries made prior to 31st December 1990. It is not expected that there will be any recoveries prior to that date for the 1983 policy. The balance of indemnity not already reclaimed is recoverable in specified amounts on fixed dates between 1991 and 1994. The policies are protected by security lodged with Bank of America N.T. & S.A. London, England, with maturity/cover values equal to the amounts so recoverable".

G3.22 What was not disclosed was the purchase of Policy 86DP00109 (the premium for which was provided in part from the realisation of assets on Policy 85MX01881 (see paragraph G3.15 above) on 29th April 1986. This policy protected the 1986 and prior years in respect of claims payments with effect from 1st January 1986 and including payments in respect of prior years received on or after 1st January 1988. The limit of the indemnity was $3.5m and claims were payable with effect from 15th February 1994. Furthermore, there was no reference to Policy 85007 (see paragraph G3.14 above).

G3.23 On 21st March 1986, Mr Elphick of the Syndicate Auditors wrote to Mr Walker as follows:

> "4. Syndicate 290 has previously effected a Time and Distance Policy for US $8,150,000 excess of US $9,000,000 in respect of the 1982 and previous Underwriting Accounts. The policy was taken out with the Pinnacle Reinsurance Co Ltd and payment of any claims is secured by a Security Fund Agreement. Under this Agreement (of which I have a copy) Pinnacle was required to deposit investments to a nominal value of not less than US $8,150,000 with the Bank of America as security against the non-payment of claims. Under Clause 6.1 of the Agreement the Bank agreed to provide an "activity report" giving details of the investments held at the end of each calendar year. Would you please ask the Bank of America to provide me with a copy of the activity report at 31 December 1985".

G3.24 In a letter dated 28th May 1986 addressed to Mr Elphick, Mr Walker replied as follows:

> "With reference to Syndicate 290 and the time and distance policy for $8,150,000 xs of $9m in respect of the 1982 previous years of accounts [sic], I am enclosing a copy from the Bank of America of the Security Fund agreement of $6m. The balance of this policy was actually placed out via a Lloyd's Syndicate, but Hugh Robertson has been in contact with the Brokers and in due course we will be able to show the full amounts but we are still awaiting details".

G3.25 Thus it can be seen that on at least two occasions (see paragraphs G3.9 and G3.10), GWL did not take the opportunity to inform the Syndicate Auditors of the involvement of Syndicate 164 in the timing risk reinsurance for Syndicate 290.

<u>Year Ended 31/12/87</u>

G3.26 The Underwriter's Report referred to excess of loss reinsurances only (not to stop loss reinsurances) presumably because detailed information about the time and distance programme was, for the first time, disclosed in a Note to the Accounts.

G3.27 The Underwriter's Report contained the following statements:

> "1985 Closed Year
>
> The 1985 result disclosed an underwriting profit of £4,971,045, a significant improvement over the 1984 account underwriting profit of £1,109,686.
>
> Last year I gave a rather gloomy forecast for this year but the position improved over the last 12 months. Forecasting open years is one of the most difficult things to do regardless of Lloyd's regulations, and one can only make a very rough estimate.
>
> Old Years
>
> In closing the account we have had to take note of a large number of new claims advised on some of the old years on the US $ account, and we have felt it prudent to substantially increase our reserves. This has produced a deficit on the US $ account of $15,949,745 arising primarily in the years 1980-1984 from Casualty and Rig Business. To off-set any loss to a Name we have purchased additional Stop Loss protection for $30,500,000 for a premium of US $15,665,000. After reinsurance this has still left a Name with a good profit on the 1985 pure account".

G3.28 The additional protection referred to above was obtained by a variation to the policies referred to in paragraph G3.19 above and a further variation of Policy 86DP00110.

G3.29 By the further variation, the indemnity was increased by $21,500,000 in return for an additional premium of $11,500,000. The whole of the increase in the indemnity was scheduled for recovery not before 15th May 1996.

G3.30 The benefit of £7,891,000 taken by the syndicate in respect of time and distance policies in the year in question appears material in the context of the profit reported by Syndicate 290 for that year of account (£3,066,000).

G3.31 The Notes to the Accounts for the year ended 31st December 1987 set out the following detailed information relating to time and distance policies:

"REINSURANCE - SPECIAL CONTRACTS

The Syndicate has effected certain United States Dollar aggregate stop loss contracts whereby, as a policy condition, claims can only be collected on or after specific future dates. The policy details are:

	Years of Account				
Payment Date	to which premium applies	to which policy charged	Premium US $	Recovery due Date	Indemnity US $
(a) 26/4/84	1981 and previous	1981	3,495,000	from 15/5/91	8,150,000
(b) 27/4/86	1983 and previous	1983	3,040,000	from 15/5/91	5,000,000
(c) 16/6/87	1984 and previous	1985	4,165,000	from 15/5/94	9,000,000
(d) 27/3/88	1984 and previous	1985	11,500,000	on 15/5/96	21,500,000
				Total	$43,650,000

(i) The aggregate stop loss policies (a and b) totalling US $13,150,000 in effect as at 31st December 1986 were converted to sterling at the rate of exchange of US $1.48 = £1.

(ii) The premium due on 27th March 1988 under the special contract (d) has been accrued as at 31st December 1987 and charged to the 1985 account as a premium in respect of reinsurance ceded.

(iii) The Indemnity of each policy is protected by a security fund established by an authorised bank in the United Kingdom".

G3.32 The following items were not reported in the accounts:

(a) Policy 86DP00109 in respect of the 1986 pure year (see above).

(b) Policy DA5551N00, the premium for which was provided on 28th September 1987 by way of return premium on Policy 84MX01780, which was a timing risk reinsurance in respect of Syndicate 970 and which was cancelled by Syndicate 290 with effect from that date (see Appendix 10). (Policy DA5551N00 was a time and distance policy but the contract wording made it appear to be part of the syndicate's conventional reinsurance programme. It provided for a recovery of $500,000 on 11th May 1990).

(c) Policy 85007 which protected the 1985 year of account had matured on 29th March 1988 and the proceeds ($3.5m) had been accrued in the accounts for the year ended 31/12/87.

<u>Year Ended 31/12/88</u>

G3.33 The business of the syndicate remained the same but, for the first time, the level of retrocessional business was shown in the accounts - over 50% in 1985, falling to 34% in 1988.

G3.34 The Underwriter's Report referred to the excess of loss reinsurance arrangements (see above) and also contained the following statements:

> "<u>1986 Closed Year</u>
>
> The year was free of any major loss and this has been reflected in a very good underwriting profit. The 1986 underwriting profit of £12,159,978 was a significant improvement on the 1985 underwriting profit of £4,971,045.
>
> <u>Old Years</u>
>
> As a reinsurance Syndicate we are always in the hands of the original assured and we have to suffer the problem of late loss advices. There seems no particular pattern to the notified losses although we are seeing more evidence of Asbestosis claims. Despite the contention of the Inland Revenue that last year's reinsurance to close was too high we have again thought it prudent to increase old year reserves by buying a Stop Loss protection of $16,500,000 at a cost of $8,200,000".

G3.35 The protection purchased by this policy (Ref: DA615R00) was not recoverable until 15th November 1996. We have not seen any cash flow analyses that support the deferred recovery of this further substantial sum until 1996 at the earliest.

G3.36 The Notes to the Accounts for the year ended 31st December 1988 provided the following further information relating to the Syndicate's time and distance programme:

"REINSURANCE - SPECIAL CONTRACTS

The Syndicate has effected certain United States Dollar aggregate stop loss contracts whereby, as a policy condition, claims can only be collected on or after specific future dates. The policy details are:

	Years of Account				
Payment Date	to which policy applies	to which premium charged	Premium US $	Recovery due Date	Indemnity US $
(a) 26/4/84	1981 and previous	1981	3,495,000	from 15/5/91	8,150,000
(b) 27/4/86	1983 and previous	1983	3,040,000	from 15/5/91	5,000,000
(c) 16/8/87	1984 and previous	1985	4,165,000	from 15/5/94	9,000,000
(d) 27/3/88	1984 and previous	1985	11,500,000	on 15/5/96	21,500,000
(e) 20/4/89	1985 and previous	1986	8,200,000	on 15/11/96	16,500,000
				Total	$60,150,000

(i) The premium paid on 20th April 1989 under the special contract (e) was accrued as at 31st December 1988 and charged to the 1986 account as a premium in respect of reinsurance ceded.

(ii) The Indemnity of each policy is protected by a security fund established by an authorised bank in the United Kingdom".

G3.37 The following information was not disclosed:

(a) Policy 86DP00109 which protected the 1986 pure year was commuted on 4th November 1988 for $2,130,000. On the same day, an additional premium was paid of $3,098,000 plus £100,000 into Policy DA5551N00. This was in addition to the original premium of $291,500 plus $100,000 which had originally been paid as a deposit for this policy. On 18th January 1989, a further payment of £205,000 was made by way of additional premium to Policy DA5551N00 (see Appendix 10);

(b) A premium of £1,410,000 was paid on 20th January 1988 in respect of Policy DA5852P00 protecting the 1988 underwriting year in respect of all losses settled on or after 1st January 1988 and providing an indemnity of £2m payable at the close of the 1988 underwriting year;

(c) On 12th August 1988 a premium of $5,990,000 was paid to purchase a policy (Ref: DA5955P00) for $8m excess of $7.5m in respect of the 1988 pure account in respect of settlements on or after 1st January 1988. Recoveries were payable from 15th May 1991;

(d) The receipt on 29th March 1988 of the proceeds of Policy 85007 ($3.5m).

Year Ended 31/12/89

G3.38 The Underwriter's Report stated that:

> "1987 Closed Year
>
> Last year I had to advise you of a potential 25% loss on this year owing to the large claims being received on the UK windstorm loss in October 1987. Fortunately, the loss settlements have died away and to close the year we are now able to give an accurate assessment of the final position. It is nice to be able to advise you of good news in that, although we have run out of reinsurance protection on this loss and even with an underwriting loss overall of £2,789,285 on the pure year, we have been able to make a profit with the help of good investment profits plus a break-even on the old years. This goes to prove the difficulty in assessing a reinsurance account as one can easily over react, but I forecast on the bleak side hoping we would be able to contain the loss in the long run.
>
> Old Years
>
> The old years are running off with no problems this year, but in anticipation of a loss for the 1987 account to close we have re-adjusted our existing aggregate stop loss protections to produce an additional surplus and we have further purchased a sterling policy in the amount of £7,000,000 at a cost of £4,218,000, thereby producing the underwriting result of £3,250,649".

G3.39 A further time and distance policy (Ref: DA6241R00) was purchased to pay £7m excess of £5m settled on or after 1st January 1989 for a premium of £4,218,000. In addition, on 18th October 1989 there was a further adjustment to Policy 86DP00110 which increased the indemnity from $34.5m to $40m largely by deferring a substantial proportion of the recovery scheduled for 1996 until 1999. As a consequence of this adjustment, the excess point on Policy DA615R00 was increased to $59,150,000 on 26th October 1989.

G3.40 The Notes to the Accounts for the year ended 31st December 1989 provided the following further information relating to the Syndicate's time and distance programme:

"<u>REINSURANCE - SPECIAL CONTRACTS</u>

The Syndicate has effected certain aggregate stop loss contracts whereby, as a policy condition, claims can only be collected on or after specific future dates. The policy details are:

Initial Payment Date	Year Benefiting	Year Paying	Premium	Recovery Date	Indemnity
(a) 26/4/84	1985 & prior	1981	US$3,495,000)	from 15/5/91	$9,150,000
16/8/87		1985	350,000)		
(b) 27/4/86	1986 & prior	1983	US$3,040,000)	from 15/5/94	$40,000,000
16/8/87		1985	3,815,000)		
27/3/88		1985	11,500,000)		
8/10/89		1986	695,000)		
(c) 20/4/89	1986 & prior	1986	8,200,000	on 15/11/96	$16,500,000
				Total	US$65,650,000
(d) 8/10/89	1986 & prior	1986	£4,218,000	on 31/3/94	£7,000,000

The Indemnity of each policy is protected by a security fund established by an authorised bank in the United Kingdom".

G3.41 What was not disclosed was that the new sterling policy referred to above (Ref: DA6241R00) was largely financed from the proceeds of the commutation of Policy DA6159R00 on 22nd October 1989. The chart in Appendix 10 demonstrates that the original premium for this policy was provided on 5th March 1989 in the amount of $6,990,000 plus £10,000, which had been initially treated as an additional premium on Policy DA5551N00. Further attention is given to this policy in Section L below and in particular to the switching of funds from US dollars to sterling, which may have been in breach of LATF rules.

G3.42 The accounts for the year ended 31/12/89 also failed to disclose the following information in relation to Policy DA5551N00:

(a) Proceeds of $500,000 were received on 11th May 1990 and of £2,125,000 on 15th May 1990. In the latter case, the proceeds appear to have resulted from a switch from US dollars. These amounts ($500,000 and £2,125,000) were accrued as outstanding recoveries on the 1987 account in the accounts for the year ended 31/12/89.

(b) An additional premium of £205,000 was paid on 5th January 1989.

G3.43 Also not disclosed were the following items of information:

(a) A new Policy DA6094R00 had been purchased for which a premium of $3,920,000 was paid on 26th February 1989 providing an indemnity of $5m in respect of losses settled on or after 1st January 1989 in respect of the 1989 pure underwriting year of account;

(b) Policy DA5852P00 (see above); and

(c) Policy DA5955P00 (see above).

Year Ended 31/12/90

G3.44 The Underwriter's Report stated as follows:

"1988 Closed Year

We are very pleased to be able to report that this year has closed with a good profit, confirming our expectations of last year.

Old Years

The old years overall are running off with no major problems to report, other than a small deterioration of 2.1775% of the reinsurance to close".

G3.45 The Notes to the Accounts provided the following further information relating to the Syndicate's time and distance programme:

"REINSURANCE - SPECIAL CONTRACTS

The syndicate has effected certain United States dollar aggregate stop loss contracts whereby, as a policy condition, claims can only be collected on or after specific future dates. The policy details are:

Initial Payment Date	Year Benefiting	Year Paying	Premium	Recovery Date	Indemnity	Present Value of Indemnity
(1) 17/1/88	1988	1988	1,410,000	on 19/12/91	£2,000,000	£1,779,000
(2) 14/8/88	1988 & prior	1988	5,990,000	(on 15/5/91 (on 15/5/92	2,000,000) 6,000,000)	7,202,000
				Total	US$8,000,000	US$7,202,000

(3) 26/4/84	1985 & prior	1981	3,495,000)	from 15/5/91	9,150,000	9,150,000
16/8/87		1985	350,000)			
(4) 27/4/86	1986 & prior	1983	3,040,000)	from 15/5/94	40,000,000	22,900,000
16/8/87		1985	3,815,000)			
27/3/88		1985	11,500,000)			
8/10/89		1986	695,000)			
(5) 20/4/89	1986 & prior	1986	8,200,000	on 15/11/96	16,500,000	9,775,000
				Total	US$65,650,000	US$41,825,000
(6) 8/10/89	1986 & prior	1986	4,218,000	on 31/3/94	£7,000,000	£4,800,000
(7) 15/1/89	1989	1989	3,920,000	on 16/12/91	US$5,000,000	US$4,650,000
(8) 25/9/90	1990	1990	1,476,000	on 31/3/93	£2,000,000	£1,525,000

The Indemnity of each policy is protected by a security fund established by an authorised bank in the United Kingdom.

Policies 1 and 2 were commuted on the 2nd April 1991 for the sum of £1,779,000 and US$7,202,000 respectively and these amounts have been accrued in the accounts and credited to the 1988 year of account".

G3.46 What was not disclosed in the accounts was as follows:

(a) The commutation of certain policies in April 1991 (see Section M below); and

(b) The receipt of £250,000 in respect of Policy DA5551N00 (for which a premium of £205,000 had been paid on 5th January 1989 (see above).

G3.47 We have see no evidence of the preparation of cash flow forecasts at the time the RITC for the 1988 account was calculated but, with the assistance of E&Y, we have set out in Appendix 5 our reconstruction of the likely cash outflows (see Section K below).

G4. Syndicate 295

Year Ended 31/12/80

G4.1 Although it is strictly outside our terms of reference, we have established that Syndicate 295 purchased in May 1981 two excess of loss policies providing a total indemnity of £2,959,939 excess of £3,641,828 protecting the 1978 and all prior years of account. The premium paid was £1,340,000 and the policies were led by Outhwaite and Tilling. Syndicate 290 wrote a very substantial following line. These policies had the effect of improving the reported result for the 1978 account by £1,619,939 being the difference between the indemnity provided and the premium paid. We are still in the process of reviewing the subsequent accounting transactions in relation to these policies. We have recently received a communication from the broker (now E.W. Payne) querying why there have been no claims under one of these policies for many years. We have also established that Lloyd's gave approval for the involvement of Syndicate 290 on these reinsurances provided the premiums were computed at arm's length (see Appendix 13).

G4.2 The underwriting account for the 1978 closed year was presented as follows:

"CLOSED UNDERWRITING ACCOUNT AT 31ST DECEMBER, 1980

		1978 Account	
	£	£	£
Premium, less Returns and Reinsurances			5,014,607
Reinsurance Premiums Received			3,566,537
			8,581,144
Less: Claims, less Salvages and Recoveries		6,067,292	
Reinsurance Premium Paid:- To 1979 Account	3,285,140		
less Quota Share Recovery	408,833		
	2,876,307		
To Excess Loss Reinsurers	1,340,000		
		4,216,307	
			10,283,599
Underwriting Loss			£1,702,455

G4.3 The Market Report was presented as follows:

"MARKET REPORT

In spite of the comments we made in our market report at this time last year, the 1978 account has closed with a loss. This loss was caused mainly by two factors.

The first major factor concerns the settlement during 1980 of previous years claims. Over many years the pattern of settlements has been relatively constant but during 1980 the old year settlement was almost double the previous years' pattern. This was a general trend in respect of all the old years, but mainly attributable to the adverse results on our Treaty Account. For some time now we have been taking steps to eliminate the Treaty Account and to date this objective has been substantially achieved. Furthermore, adverse results arose from our involvement in reinsurance of aviation products legal liability business. Again, we have already taken steps to remedy the situation.

The second main factor was that the noted outstanding claims at 31st December 1980 were (in proportion to the Premium Income written) more than 70% higher than at the previous year end. A measure of inaccuracy has arisen due to this being the first year we have relied upon the computerised noted outstandings provided by the Lloyd's Aviation Claims Centre. In view of this high level of the L.A.C.C. advices an investigation was immediately started. In the short time available we have already identified the fact that some 15% of these noted claims had already been paid by the Syndicate prior to the year end but unfortunately it was too late for this factor to be taken into account in the closing of the year.

In view of the abnormality of the settlement pattern and the uncertainty relating to the noted outstandings we decided in the best interests of Names to effect whole account excess loss protection in the Lloyd's market in respect of 1978 and all previous years.

Whilst regretting this loss we are particularly concerned that we did not identify the problems earlier. Corrective steps have already been taken and new staff engaged.

The pure 1979 account is looking worse at this stage in comparison to the 1978 account. Because of the excess loss insurance mentioned above we cannot have the same problems with the run-off of old years at the end of this year as we did at the end of 1980. In summary, therefore, 1979 can be looked at on a "pure" basis and this should mean that the overall loss for the account will be smaller than for the 1978 account.

We will report again to Names towards the end of this year when we have received the third quarter figures. The 1980 account started well with a greatly improved claims settlement. We expect the account to be profitable.

So far as the Aviation Market generally is concerned there are definite signs of improvement, airline rates are increasing but not dramatically. However, other sections of the business are attracting considerable rate increase".

Year ended 31/12/81

G4.4 On 12th and 17th May 1982, Syndicate 295 purchased two time and distance policies from First State Insurance Company, covering the 1979 and prior years of account, for a total of $9m excess of $16m at a premium of $4,278,410.

G4.5 By an Addendum dated 25th May 1982, timing limitations in respect of recoveries under the policies were removed in consideration of a timing risk reinsurance led by two unrelated Lloyd's syndicates (20%) and by Syndicate 290 (80%).

G4.6 The beneficial effect of the time and distance policies in reducing the loss on the 1979 closed underwriting account was not disclosed. The Underwriter's Report did not mention the purchase of the two policies but contained the following statements:

> "As forecast a year ago, 1979 has proved to be a very poor Underwriting year in the London Aviation Market. Syndicate 295 was at that time still considerably involved in Treaty business and Aggregate Products policies (as mentioned in last year's Market Report) which as a class is always difficult to project results. During the course of calendar year 1981, the account showed a marked deterioration mainly due to these classes of business. This is the major reason why our forecast of the 1979 results has turned out to be worse than anticipated and advised. Added to this, due to past trends, the "carry forward" required by the Auditors was greater than any past year of the Syndicate.
>
> As stated in last year's report, we have taken steps to eliminate the classes of business from our books which we consider to be unprofitable. This includes the Treaty Portfolio and certain Aggregate Products policies. This, by and large, has been achieved.
>
> The 1980 account does show an improvement over 1979 but nevertheless, regrettably we consider that it will still show a loss.
>
> So far as 1981 is concerned, we are of the opinion that the account should be in profit due to the remedial steps we have taken, as mentioned above, together with the fact that rates did increase in certain areas of the business.
>
> We feel strongly that the Syndicate is currently writing a profitable account and every possible measure is being taken to ensure that it remains that way ..."

G4.7 The 1979 closed underwriting account gave the following information:

"1979 CLOSED UNDERWRITING ACCOUNT AT 31ST DECEMBER, 1981

	£	£	£
Premium, less Returns and Reinsurances			8,542,272
Reinsurance Premiums Received			3,285,140
			11,827,412
Less: Claims, less Salvages and Recoveries		8,035,578	
Reinsurance Premium Paid:- To 1980 Underwriting Account	4,857,326		
less Quota Share Recovery	445,059		
	4,412,267		
To Excess Loss Reinsurers	2,279,272		
		6,691,539	
			14,727,117
Underwriting Loss			£2,899,705

Year ended 31/12/82

G4.8 The Market Report gave no indication of the business written by the Syndicate but stated as follows:

> "1980 has closed with a much reduced loss over the 1979 account and we hope it will see the last of our losses and we believe the future looks brighter for the next few years.
>
> So far as the 1981 year is concerned, we believe it should break about even but with the changing Audit Regulations at Lloyd's it makes it difficult to assess the final outcome.
>
> The 1982 account is currently showing the lowest incurred settlement we have had for a number of years and we feel confident that unless there is a major increase in late claim advices we will be able to show a good profit at last on this Syndicate. We hope this trend will continue as we believe there is still a future in Aviation Underwriting and we shall be doing out best to prove it ..."

G4.9 A further large time and distance policy (Ref: 83MX01590) was purchased from Pinnacle on 14th May 1983 to protect the 1980 and prior years of account in the sum of $16m excess of $14.7m. The premium was $6,075,000. There were no timing restrictions on this policy, which is more fully described in Section J3 below. Thus, the total indemnity provided by the time and distance policies written by Pinnacle and First State Insurance Company was $25m.

G4.10 The underwriting account for the 1980 closed year was presented as follows:

CLOSED UNDERWRITING ACCOUNT

	1980 ACCOUNT AT 31ST DECEMBER 1982			1979 ACCOUNT AT 31ST DECEMBER 1981		
	£	£	£	£	£	£
Premiums, less Returns		20,920,691			16,127,153	
less Reinsurance Premiums ceded		9,109.055			7,584,881	
			11,811,536			8,542,272
Reinsurance Premium Received			5,586,227			3,809,388
			17,397,763			12,351,660
Less: Claims, less Salvages		25,156,859			21,077,142	
less Reinsurance Recoveries		15,888,309			12,648,605	
		9,268,550			8,428,537	
Reinsurance Premium Paid:- To 1981 Underwriting Account	6,367,123			4,857,326		
less Quota Share Recovery	385,331			445,059		
	5,981,792			4,412,267		
To Excess Loss Reinsurers	3,750,000			2,279,272		
		9,731,792			6,691,539	
			19,000,342			15,120,076
Underwriting Loss			£1,602,579			£2.768.416

G4.11 Whilst a payment to excess loss reinsurers of £3,750,000 was disclosed, the nature of the policy and the benefit provided by it were not disclosed. Furthermore, there was no mention of a further contingency policy written by Pinnacle nor of reinsurances of Pinnacle underwritten by Syndicates 164 and 290 in respect of the time and distance policy and the contingency policy. The reinsurances of Pinnacle (which are explained in more detail in Section J3) included coverage for $5m excess of $11m protecting Pinnacle's liability (total $16m) in respect of the time and distance policy Pinnacle had written for Syndicate 295 and timing risk reinsurance on the $11m of cover retained by Pinnacle.

Year ended 31/12/83

G4.12 There were no purchases of time and distance policies by Syndicate 295 in 1983.

G4.13 The combined Underwriter's and Managing Agent's Report stated that:

"...after the losses of the past three years we have moved into a small profit and we believe we can show a steady improvement in the years ahead. It has been a difficult time for the Syndicate but we were determined to get back to profitability, regretfully a number of changes in the Lloyd's regulations made our position increasingly difficult and is continuing to do so. We thank the Names who have stood by us and we believe the reserves of the Syndicate are now on a stronger base and there should be a good future for us...

We would like to comment on the open years and at this point in time our 1982 account, we anticipate, should close with a modest profit...

...The Syndicate had a reduction in Names over the past three years but we have now good increased support for the 1984 account and even greater increase for the 1985. This will help us to establish our position back in the Market".

G4.14 A Note to the Accounts set out the reinsurance to close as follows:

"REINSURANCE TO CLOSE

	1981 Account	1980 Account
Gross Premium payable to 1982 (1981) account	8,500,359	6,367,123
Less: Quota-Share Reinsurance Recovery	(114,413)	(385,331)
Add: payable to Excess Loss Reinsurers	-	3,750,000
Net Premium to Close the Account	£8,385,946	£9,731,792

The reinsurance to close the 1980 account at 31st December, 1982 differs from the amount credited to the 1981 account due to the revaluation of funds held in United States and Canadian dollars".

Year ended 31/12/84

G4.15 No time and distance policies were purchased in this year.

G4.16 The Underwriter's Report stated that:

> "Reinsurance
>
> ...The reinsurance programme includes Aggregate Stop Loss policies protecting 1979 and prior years in the sum of $9m xs $16m and $16m xs $14.7m in respect of 1980 and prior. These amounts are in addition to the reserves shown in the accounts and form part of the reserves of the syndicate.
>
> Closed Year
>
> We are pleased to show an improvement in the profit of this syndicate, the underwriting results are breaking about even with the profit coming from investments.
>
> Open Years
>
> ...1984 has every indication of being a good year and we anticipate a profitable result..."

Year ended 31/12/85

G4.17 There were no purchases of time and distance policies in this year.

G4.18 The Managing Agent's Report stated that:

> "We feel that market conditions continue to favour the underwriter and we intend to expand the syndicate by approximately 25% for the 1986 account compared with the 1985 account".

G4.19 The Underwriter's Report contained the following statements:

> "Reinsurance
>
> ...The reinsurance programme includes aggregate Stop Loss policies protecting 1982 and prior years which now amounts to $25,500,000; this is in addition to the reserves shown in the accounts.
>
> The Closed Year
>
> We are very pleased to be able to report a satisfactory profit, despite some very substantial market losses.

Open Years

1984 Underwriting Account

As we reported last year, during 1984 the Aviation Market was able to obtain increased premiums across all categories of business, this being particularly relevant in the areas of Airline business and Products Legal Liability. This coupled with the low incidence of loss, enables us to anticipate that the Syndicate will achieve a satisfactory profit, but on a very much reduced premium income...

1985 Underwriting Account

Whilst the 1985 account was the worst year for losses on record, we anticipate that the Syndicate will close with a satisfactory profit due largely to our reinsurance programme..."

G4.20 The Notes to the Accounts contained the following:

"EXCEPTIONAL ITEMS

Premiums in respect of reinsurances ceded include £155,172 in respect of a whole account aggregate reinsurance policy effected by the 1983 account. The reinsurance to close the 1983 underwriting account has been reduced by £344,828 in respect of the known future recovery of this policy".

G4.21 The exceptional item referred to above resulted from an additional premium paid to Pinnacle of $225,000 which increased the indemnity provided under the Pinnacle policy by $500,000 to $16.5m. Claims settlements in respect of the 1981 pure year were added with effect from 1st January 1984. At the same time (i) the policy excess was increased from $14.7m to $18m (ii) the reinsurance of Pinnacle by Syndicates 164 and 290 was increased by $500,000 to $5.5m for an additional premium of $85,000 and (iii) the timing risk reinsurance was adjusted "in respect of additional risks" for an additional premium of $105,000.

Year ended 31/12/86

G4.22 The Managing Agent's Report stated that:

"In the present market conditions it is not intended to expand the syndicate by more than 20% for the 1988 account".

G4.23 The Underwriter's Report for the first time detailed the split of premium income between the various classes of business and it also contained the following statements:

"REINSURANCE

...The reinsurance programme includes Aggregate Protection cover relating to 1984 and prior years, which amounts to $25,500,000. This is in addition to the reinsurance to close shown in the accounts. Further details are given in note 2 to the accounts.

THE CLOSED YEAR

We are pleased to report a satisfactory profit, despite a substantial reduction in Premium Income compared with 1983..."

G4.24 The Notes to the Accounts contained the following item:

"REINSURANCE TO CLOSE

The Syndicate has substantial whole account aggregate reinsurance protection. The cover has been built up over recent years and was consolidated (at no additional premium) as at 31st December 1986 into a single cover of US $25.5m excess of US $7.7m in respect of settlements on or after 1st January, 1987 on the 1984 year of account and all previous years.

The total cover was increased when closing the 1983 year of account as at 31st December, 1985 to US $25.5m in respect of settlements on the 1981 year of account and all previous years.

There are no timing restrictions regarding recoveries under the policy. The security for the policy is protected by irrevocable letters of credit issued by Citibank NA.

The effect of the protection is as follows:-

	1984 Account	1983 Account
Reinsurance to close premium shown in the underwriting account	£4,801,666	£7,441,664
Amount calculated before anticipated recovery under aggregate protection policies	22,031,396	25,027,871
Credit taken for anticipated recovery	17,229,730	17,586,207
Net reinsurance to close premium as above	£4,801,666	£7,441,664

The premiums paid to effect the aggregate protection policies were charged in the accounts as premiums in respect of reinsurances ceded. The premium charged to the 1983 account as at 31st December, 1985 was £155,172 (paid 4th May, 1986), the resulting reduction in the reinsurance to close the 1983 account being £344,828. The balance of the protection was secured by premiums charged in previous years of account".

G4.25 The references to consolidation into a single policy related to changes which were documented during 1987 (see below).

Year ended 31/12/87

G4.26 The Managing Agent's Report stated that:

"In the present market conditions it is not intended to expand the syndicate in respect of the 1989 Account".

G4.27 Potential environmental pollution claims were mentioned in the Underwriter's Report and the following reasons were given why Syndicate 295's exposure would be limited (clearly indicating a long-tail liability on the account):

"First, in the formative years of Syndicate 295 a very small participation in liability risks was accepted by the Underwriter. This is also true of Syndicate 299's policy when writing Aviation business prior to the formation of Syndicate 295.

Secondly, in the later years (1970 forward) the Aviation market introduced a much tighter pollution exclusion wording which, although not used in every liability policy now in contention will certainly be an advantage to Underwriters in those contracts where it was applied.

Finally, reinsurance protection was purchased by the Syndicate for the years in question which we are hopeful will respond in the event of liability being found against Underwriters".

G4.28 The Underwriter's Report also contained the following statement:

"<u>Reinsurance Arrangements</u>

...The reinsurance programme includes aggregate protection cover relating to 1984 and prior years, amounting to $24,500,000. This is in addition to the Reinsurance to Close shown in the accounts. $1m was recovered from reinsurers during the course of 1987..."

G4.29 The Notes to the Accounts contained the following item:

"<u>REINSURANCE - SPECIAL CONTRACTS</u>

The syndicate has substantial whole account aggregate reinsurance protection.

The cover has been built up over recent years and was consolidated (at no additional premium) as at 31st December, 1986 into a single cover of US $25.5m excess of US $7.7m in respect of settlements on or after 1st January 1987 on the 1984 year of account and all previous years.

During the course of 1987 the syndicate recovered the sum of $1m thus reducing the indemnity to $24.5m.

There are no timing restrictions regarding recoveries under the policy. The security for the policy is protected by irrevocable letters of credit issued by Citibank N.A."

G4.30 A number of relevant policy changes and transactions occurred during the year:

(a) an endorsement dated 26th May 1987 to the Pinnacle time and distance policy achieved the following:

(i) the broker of record with effect from 21st May 1987 was amended to Heath Fielding;

(ii) the underwriting years covered were amended to 1984 and all prior years in respect of loss settlements on or after 1st January 1987;

(iii) the coverage was amended to \$24.5m excess of \$7.7m and the policy was to have the benefit of the \$9m coverage provided by the First State policy. (The reduction in the indemnity from \$25.5m to \$24.5m reflected the recovery of \$1m mentioned in (f) below);

(b) on 8th June 1987, the two First State policies were commuted (by an Addendum dated 10th June 1987) for a return premium of \$6,125,000;

(c) the return premium of \$6,125,000 was paid to Pinnacle as an additional premium under the Pinnacle time and distance policy;

(d) by an endorsement dated 13th July 1987, the reinsurance of Pinnacle underwritten by Syndicates 164 and 290 was amended to \$4m excess of \$20.5m for an additional premium of \$30,000;

(e) the timing risk reinsurance was further amended with effect from 21st May 1987 for an additional premium of \$30,000 following a rescheduling of investment maturities by Pinnacle; and

(f) \$1m was paid by Pinnacle to Syndicate 295.

The amendments to the reinsurances written by Syndicate 290 and 164 are considered in Section J3.

Year ended 31/12/88

G4.31 The Managing Agent's Report again stated that:

"In the present market conditions it is not intended to expand the Syndicate in respect of the 1990 Account".

G4.32 The Underwriter's Report contained the following statement:

"Reinsurance Arrangements

...The reinsurance programme includes aggregate protection cover relating to 1986 and prior years, amounting to \$18,000,000. This is in addition to the Reinsurance to Close shown in the accounts. \$4,770,000 was recovered from Reinsurers during the course of 1988, as a result of adjusting the cover..."

G4.33 The Notes to the Accounts contained the following items:

"<u>REINSURANCE - SPECIAL CONTRACTS</u>

The Syndicate has substantial whole account aggregate reinsurance protection.

The cover now totals $18,000,000 in respect of 1986 and previous (1987 - $24,500,000 in respect of 1984 and previous).

The Syndicate has recovered a total of $4,770,000 during 1988 (1987 - $1,000,000) in respect of restructuring the policy.

There are no timing restrictions regarding recoveries under the policy. The security for the policy is protected by irrevocable letters of credit issued by Citibank N.A..."

G4.34 The following transactions took place during 1988:

(a) on 12th August 1988 Pinnacle paid Syndicate 295 an OCA of $2.9m;

(b) on 11th August 1988 with effect from 5th August, the indemnity under the time and distance policy was reduced from $24.5m to $21.6m;

(c) on 11th August 1988 with effect from 5th August, the Pinnacle reinsurance written by Syndicates 164 and 290 was amended to $3m excess of $21.5m (previously $4m excess of $20.5m) for an additional premium of $50,000;

(d) also on 11th August 1988 with effect from 5th August, the timing risk reinsurance was amended in return for an additional premium of $50,000;

(e) by an Addendum dated 14th November 1988 (correcting the adjustment referred to in (b) above) the Pinnacle time and distance policy was further amended to $24.5m (increased from $21.6m) excess of $10m (increased from $7.7m) for loss settlements made on or after 1st January 1987 in respect of 1984 and prior years, 1st January 1988 in respect of the 1985 pure year and 1st January 1989 in respect of 1986 pure. An additional premium of $210,000 was paid to Pinnacle on 12th August 1988;

(f) by an Addendum dated 16th August 1988 (but with effect from 5th August):

 (i) the underwriting years were amended to 1986 and all prior years in respect of loss settlements made after 1st January 1989; and

 (ii) the indemnity was amended to $24.5m excess of $10m;

(g) on 27th April 1989 with effect from 1st January 1989:

 (i) the indemnity on the policy was amended to $18m (previously $24.5m);

 (ii) coverage was amended in respect of paid <u>and incurred</u> losses as follows:

  a) after 1/1/87 in respect of 1984 and prior years;

  b) after January 1988 in respect of the 1985 pure year; and

  c) after January 1989 in respect of the 1986 pure year.

 It was further agreed by "special agreement between the parties hereto" that the reinsurers would pay an OCA of $220,000;

(h) on 5th May 1989, Pinnacle paid a claim to Syndicate 295 of $1,650,000 together with the OCA of $220,000;

(i) by an Addendum dated 2nd May 1989 with effect from 1st January 1989, the reinsurance of Pinnacle by Syndicates 164 and 290 was amended to $3m excess of $15m for an additional premium of $15,000; and

(j) on the same day, the timing risk reinsurance was further amended for an additional premium of $15,000.

G4.35 The overall effect of the above was to enable Syndicate 295 to make recoveries of $4.77m (as indicated in the accounts for the year ended 31/12/88) but the total reduction in the indemnity of $6.5m (from $24.5m to $18m) resulted in a net loss to the 1986 account of $1,940,000 after paying the additional premium of $210,000 (see (e) above). The reconciliation of the revised coverage provided by the Pinnacle time and distance policy is as follows:

	$000's	
Reduction in indemnity	6,500	(from $24.5m to $18m)
Additional premium	0.210	
	6,710	
Less recoveries	(4,770)*	
Loss taken in 1986 account	1,940	

* Being a claim for $1,650,000 and OCAs of $2.9m and $220,000.

Year ended 31/12/89

G4.36 The Managing Agent's Report stated that:

> "In the present market conditions it is our intention to keep a similar stamp capacity on this Syndicate for the 1991 Account".

G4.37 The Underwriter's Report contained the following statement:

> "REINSURANCE ARRANGEMENTS
>
> ...The reinsurance programme includes aggregate protection cover relating to 1986 and prior years amounting to US $15,213,654. This is in addition to the Net Reinsurance to Close shown in the accounts. In accordance with policy terms $2,786,346 was recovered from Reinsurers during the course of 1989, which represents the Syndicate's paid claims during 1989 in respect of the 1986 year of account and prior..."

G4.38 The Notes to the Accounts stated that:

> "REINSURANCE - SPECIAL CONTRACTS
>
> The Syndicate has substantial whole account aggregate reinsurance protection.
>
> The cover now totals $15,213,654 in respect of 1986 and previous (1988 - $18,000,000 in respect of 1984 and previous).
>
> The Syndicate has recovered a total of $2,786,346 during 1989 (1988 - $4,770,000) in respect of restructuring the policy.

There are no timing restrictions regarding recoveries under the policy. The security for the policy is protected by irrevocable letters of credit issued by Citibank N.A.".

G4.39 The accounts did not reveal that $282,346 of the recovery of $2,786,346, was collected (on 17th April 1990) under the timing risk policy written by Syndicates 164 and 290.

<u>Year ended 31/12/90</u>

G4.40 The Managing Agent's Report stated that:

"In the present market conditions it is our intention to keep a similar stamp capacity on this Syndicate for the 1992 Account".

G4.41 The Underwriter's Report contained the following statement:

"REINSURANCE ARRANGEMENTS

...The reinsurance programme includes aggregate protection cover relating to 1986 and prior years amounting to US $13,473,860. This is in addition to the Net Reinsurance to Close shown in the accounts. In accordance with policy terms $1,739,794 will be recovered from Reinsurers in respect of 1990, which represents the Syndicate's paid claims during 1990 in respect of the 1986 year of account and prior..."

G4.42 The Notes to the Accounts stated that:

"REINSURANCE - SPECIAL CONTRACTS

The Syndicate has substantial whole account aggregate reinsurance protection.

The cover now totals $13,473,860 in respect of 1986 and previous (1988 - $15,213,654 in respect of 1986 and previous).

The Syndicate will recover a total of $1,739,794 in respect of 1990 (1989 - $2,786,346).

There are no timing restrictions regarding recoveries under the policy. The security for the policy is protected by irrevocable letters of credit issued by Citibank N.A."

G4.43 The recovery of $1,739,794 was made on 19th April 1991. What was not disclosed in the accounts was that $298,794 of this figure was in fact recovered under the timing risk reinsurance with Syndicates 164 and 290.

G5. <u>Syndicate 296</u>

No use was made of time and distance policies and no question of disclosure in the accounts arises.

G6. <u>Syndicate 298/222</u>

<u>Year ended 31/12/83</u>

G6.1 The combined Underwriter's and Managing Agent's Report stated that:

> "As expected the 1981 underwriting account has closed profitably and we anticipate that 1982 will show a similar result".

<u>Year ended 31/12/84</u>

G6.2 The Managing Agent's Report stated that:

> "We feel that market conditions continue to favour the underwriter and we intend to expand the syndicate by approximately 50% for the 1986 account compared with the 1985 account".

<u>Year ended 31/12/85</u>

G6.3 The Managing Agent's Report stated that:

> "We feel that market conditions continue to favour the underwriter and we intend to expand the syndicate by approximately 50% for the 1986 account compared with the 1985 account [sic]".

(This statement appears to be in error since it merely repeats what was said in the accounts for the year ended 31/12/84. It should have referred to the intended expansion for the 1987 account).

<u>Year ended 31/12/86</u>

G6.4 The Managing Agent's Report stated that:

"We feel that market conditions continue to favour the underwriter and we intend to expand the syndicate by approximately 25% for the 1988 account."

Year ended 31/12/87

G6.5 The Managing Agent's Report stated that:

"In the present market conditions it is anticipated that there will be only a small expansion for the 1989 Account".

G6.6 The Underwriter's Report contained the following statements:

"My Names should be made fully aware that there are three possible problems which are being observed with great care.

The first being that of hurricane "Alicia" in August 1983. The loss now hitting the Marine Excess Loss market much harder than a number of experts previously considered possible. For my syndicate we appear to have adequate protection.

No report would be complete without mention of the European Hurricane on 16th October, 1987. No figures have yet been advised to the syndicate but I feel satisfied that the reinsurance protections should contain the gross loss position when ultimately known.

The third problem is the question of environmental risks -in a word - pollution. Whilst this syndicate has not been advised of any provisional claims, it is unlikely that we will escape from claims entirely. The potential problem for the insurance industry could be enormous and is being monitored by underwriting and legal committees. On this subject I will provide more detail in my next report."

Year ended 31/12/88

G6.7 The Managing Agent's Report stated that:

"In the present market conditions it is anticipated that there will be only a small expansion for the 1990 Account".

G6.8 The Underwriter's Report contained the following statements:

"With regard to 1987 I have every confidence that there will be a profit. Without the Piper Alpha loss the 1988 year appears reasonable. Claims on this major loss will continue to be settled for some time to come before our final position is known. We might, in the future, run out of reinsurance cover. If we were to achieve a break-even result for 1988 we would regard this as satisfactory.

Last year at this point I brought to your attention such losses as Alicia, European Hurricane of October '87 and Pollution, fortunately the development of such losses are within our protections and would seem to give no cause for concern."

G6.9 A Note to the Accounts set out the following details regarding Syndicate 298's first purchase of time and distance reinsurance:

"The Syndicate has effected certain United States Dollar aggregate stop loss contracts whereby, as a policy condition, claims can only be collected on or after specific future dates. The policy details are:

	Years of Account				
Payment Date	to which policy applies	to which premium charged	Premium US$	Recovery due Date	Indemnity US $
(a) 24/1/89	1986 previous to 1983	1986	1,823,850	31/12/95	3,000,000
(b) 28/1/88	1988	1988	2,535,000	31/12/95	6,000,000
				TOTAL	$9,000,000

(i) The premium paid on 24th January, 1989 under the special contract (a) was accrued as at 31st December, 1988 and charged to the 1986 account as a premium in respect of reinsurance ceded.

(ii) The above policies have been effected with Lloyd's Security."

G6.10 The benefit to the 1986 account of the time and distance policies was stated to be £1,657,459 in Note 3 to the Accounts. This figure in fact represented the total indemnity. The net benefit to the 1985 year was £649,807 (being the indemnity of $3m less the premium of $1,823,850).

G6.11 We have seen no evidence of the production of cash flow forecasts in support of the policies mentioned above nor at the time when the RITC for the 1986 account was calculated.

Year ended 31/12/89

G6.12 The Managing Agent's Report stated that:

> "It is still our present intention [the Active Underwriter having resigned on 7th December 1989] to expand the capacity on this Syndicate for the 1991 Account".

G6.13 The Underwriter's Report (presented by Mr Jewell as "caretaker" Active Underwriter) contained the following statements:

> "1987 CLOSED YEAR
>
> Despite the impact of the European Hurricane of October 1987 and the Piper Alpha loss in the following year (some of this loss fell on the 1987 Account), a profit of £1,306,787 has been achieved. The contribution of previous years reinsured into the 1987 year had a minimal effect upon this result...
>
> 1989 OPEN YEAR
>
> Hurricane Hugo, San Francisco earthquake and the Philips Factory explosion in Texas occurred during this year and so despite the syndicate increasing its own reinsurance protection significantly the outlook is gloomy and a marginal result looks most likely".

G6.14 A Note to the Accounts stated that:

> "REINSURANCE - SPECIAL CONTRACTS
>
> The Syndicate has effected certain United States Dollar aggregate stop loss contracts whereby, as a policy condition, claims can only be collected on or after specific future dates. The policy details are:

	Years of Account				
Payment Date	to which policy applies	to which premium charged	Premium US$	Recovery due Date	Indemnity US $
(a) 24/1/89	1986 previous to 1983	1986	1,823,850	31/12/95	3,000,000
(b) 28/12/88	1988	1988	3,535,000	31/12/95	6,000,000
(c) 3/3/89	1988	1988	3,461,775	29/2/96	6,000,000
(d) 21/4/89	1988	1988	2,891,415	30/4/96	5,000,000
				TOTAL	$20,000,000

(i) The above policies have been effected with Lloyd's Security.

(ii) On the 8th April 1990 the Special Contract (b) was commuted for an amount of US $3,600,000."

G6.15 We have seen no evidence of the production of cash flow forecasts in support of the purchase of the policies mentioned above nor at the time the RITC for the 1986 account was calculated. The Syndicate Auditors have stated that the loss would have been called from Names to replenish the cash position.

Year ended 31/12/90

G6.16 The Managing Agent's Report stated that:

> "It is still our present intention to expand the capacity on this Syndicate for the 1992 Account".

G6.17 The Underwriter's Report contained the following statements by Mr Robertson in relation to the years of account up to 1991:

> "1988 CLOSED YEAR
>
> The year has closed with a loss as was expected. The 1986 and prior years of account have had little effect on this year but regrettably the UK hurricane claim of October 1987 has deteriorated beyond the projections made. Provision has been made...for a loss on exchange for the purchase of Dollars during 1991 to the date of closing of the 1988 account, and these two factors are the main cause of the 1988 account moving from the projected 129% loss to the 165% loss as finally determined.
>
> 1989 OPEN YEAR
>
> The pessimism expressed last year was well founded in that the best forecast that can be made with the current figures suggests that this account will not settle below 130% of allocated capacity. The speed at which the major losses are settling is starting to produce a cash shortfall above the amount of loans that the Syndicate is able to obtain in the Banking Market, and it is with regret that a call of 100% will

have to be made at this time. A further call may have to be made later this year. The Managing Agency will be looking to close this account at the end of its three year cycle, however this may prove to be impossible."

G6.18 A Note to the Accounts stated that:

"REINSURANCE - SPECIAL CONTRACTS

The Syndicate has effected certain United States Dollar aggregate stop loss contracts whereby, as a policy condition, claims can only be collected on or after specific future dates. The policy details are:

	Years of Account				
Payment Date	to which policy applies	to which premium charged	Premium US$	Recovery due Date	Indemnity US $
(a) 24/1/89	1986 previous to 1983	1986	1,823,850	31/12/95	3,000,000
(b) 28/12/88	1988	1988	3,535,000	31/12/95	6,000,000
(c) 3/3/89	1988	1988	3,461,775	29/2/96	6,000,000
(d) 21/4/89	1988	1988	2,891,415	30/4/96	5,000,000
				TOTAL	$20,000,000

(i) The above policies have been effected with Lloyd's Security.

(ii) During 1990 the Special Contracts (b), (c) and (d) were commuted for an amount of US $9,953,190.

(iii) At 31st December 1990 Special Contract (a) has a present value of indemnity of US $1,950,000.

G7. Syndicate 299/297

Year ended 31/12/83

G7.1 The combined Underwriter's and Managing Agent's Report contained the following statements:

"<u>Summary</u>

... The overall claims settlement figures for the Syndicate show a significant improvement for 1982 and 1983. The Syndicate is currently expanding its capacity and the premium income is rising. The future is looking brighter than it has done for the last few years".

<u>Year ended 31/12/84</u>

G7.2 The Managing Agent's Report stated that:

> "We feel that market conditions continue to favour the underwriter and we intend to expand the syndicate by approximately 50% for the 1986 account compared with the 1985 account".

G7.3 The Underwriter's Report contained the following statements:

> "<u>Summary</u>
>
> We estimate that the open years 1983 and 1984 will each show a substantial net premium growth compared with 1982. Our intention is to continue to write a broad based Marine account.
>
> Each section of the account has its own specific reinsurance protection as well as being covered by the syndicate's general excess of loss coverage. Considerable specific and general layers of protection have been purchased during 1984. Additional coverage will be bought as and when deemed desirable.
>
> An overall profit to Names for 1982 reflects the slight optimism expressed in last year's report and the overall marine outlook is encouraging. The figures for 1983 indicate an increased underwriting profit next year and the 1984 figures continue the improvement".

G7.4 There was no mention of an unlimited run-off contract underwritten by Merrett protecting prior years of account (see subsequent disclosure in Section G7.15).

G7.5 Syndicate 299 purchased from Pinnacle in May 1985 a time and distance policy (Ref: 85MX01873) providing an indemnity $750,000 for a premium of $435,000 though there was no specific reference to this in the accounts for the year ended 31/12/84. This policy in effect formed the excess point for the Merrett unlimited policy.

Year ended 31/12/85

G7.6 The Managing Agent's Report stated that:

> "We feel that market conditions continue to favour the underwriter and we intend to expand the syndicate by approximately 50% for the 1986 account compared with the 1985 account".

(Again, this appears to be in error, in that it repeats without necessary modification the statement made in the 1984 accounts. The reference to intended capacity should have related to the 1987 account).

G7.7 The Underwriter's Report contained the following statements:

> "Liability Account
>
> Names will recall that last year an overall loss was made in the 1982 account due to the necessity to reserve for possible asbestosis claims. A significant turn around has occurred in the 1983 account resulting in a profit...
>
> Summary
>
> ...I expect that 1984 and 1985 will show a net premium growth compared with 1983. Despite comments made above concerning the growth in the Liability and Excess of Loss content of the account it remains my firm intention to underwrite a broad based Marine account. Each section of the syndicate has its own specific reinsurance protection as well as being covered by the more general excess of loss coverage. I have continued to purchase additional protection in both areas during the past 12 months. I am expecting both 1984 and 1985 to be profitable..."

G7.8 There was again no specific reference to the time and distance policy purchased in 1985 nor to the Merrett unlimited reinsurance.

Year ended 31/12/86

G7.9 The Managing Agent's Report stated that:

> "In the present market conditions it is anticipated that there will be only a minimal expansion for the 1988 account".

G7.10 The Underwriter's Report stated that:

> "...The overall result of the Syndicate's underwriting was very satisfactory, although there was a small deterioration in the old years..."

G7.11 The Underwriter's Report also referred for the first time to the time and distance policy purchased in 1985:

> "...There is an Aggregate Excess Reinsurance in existence for the syndicate's US$ account - see note 2 to the accounts for details..."

G7.12 The Notes to the Accounts contained the following disclosure:

> "<u>REINSURANCE TO CLOSE</u>
>
> The syndicate's whole US dollar account is protected by an Aggregate Excess Reinsurance policy covering the 1982 and prior years of account, in respect of settlements on and after 1st January, 1985.
>
> The policy limit is $750,000 excess of $6,000,000 with no timing restrictions on recovery. The balance of any unutilised cover may be reclaimed by the syndicate on 16th February, 1991.
>
> At 31st December, 1986, $3,500,823 of the $6,000,000 has been settled.
>
> The premium paid to effect the above policy was charged with premiums in respect of reinsurances ceded in the 1982 account as at 31st December, 1984...
>
> The policy is protected by stock with a redemption value of $750,000 lodged with Bank of America, N.T. & S.A., London, England, under a Security Fund agreement".

G7.13 There was still no reference to the Merrett unlimited reinsurance.

<u>Year ended 31/12/87</u>

G7.14 The Managing Agent's Report stated that:

> "In the present market conditions it is anticipated that there will be only a minimal expansion for the 1989 account".

G7.15 The Managing Agent's Report also referred to the Merrett unlimited reinsurance in the following terms:

"Open Account

The Syndicate has a potential dispute with another Lloyd's syndicate managed by Merrett Syndicates Ltd, concerning the run-off policy for Syndicate 297 placed in 1982 and subsequently amended to include Syndicate 299. Until the dispute is settled the Directors of Gooda & Partners Ltd. have decided to leave open the 1985 year of account. We are making a distribution to Names on account of profits and look forward to a swift and satisfactory settlement of the matter".

G7.16 The Underwriter's Report contained the following statements:

"As Names will have read in the Managing Agent's Report there is a potential dispute with another Lloyd's Underwriter concerning a Reinsurance Protection and a decision has been taken by the Board of Directors to leave the 1985 Underwriting Account open pending resolution of this affair...

Reinsurance Arrangements

... During its earlier years the syndicate in common with many others in Lloyd's wrote liability business which has produced many claims in respect of asbestosis and other industrial diseases and also environmental pollution losses.

A Run-off protection was taken out in 1982.

There is also an Aggregate Excess Reinsurance in existence for the syndicates' US$ Account.

See note 3 to the accounts for details of these protections ..."

G7.17 The Notes to the Accounts stated that:

"REINSURANCE - SPECIAL CONTRACTS

The incidental non-marine content of Syndicates 299/297 is protected by an unlimited aggregate excess of loss protection for settlements on and after 1st January 1982.

The policy covers Syndicate 297 for the 1977 account and prior years and Syndicate 299 for its incidental non-marine content for the 1956 account and prior years.

Of the anticipated reinsurance recoveries at 31st December 1987 of £11,081,051 (see note 2), £3,202,208 (£3,436,385 - 31st December 1986) relates to this policy.

The syndicate's whole US dollar account is further protected by an Aggregate Excess Reinsurance policy covering the 1982 and prior years of account, in respect of settlements on and after 1st January, 1985.

The policy limit is $750,000 excess of $6,000,000 with no timing restrictions on recovery. The balance of any unutilised cover may be reclaimed by the syndicate on 16th February 1991.

At 31st December, 1987 $4,377,940 of the $6,000,000 has been settled.

The premium paid ($435,000) to effect the above policy was charged with premiums in respect of reinsurances ceded in the 1982 accounts as at 31st December 1984.

The policy is protected by stock with a redemption value of $750,000 lodged with Bank of America NT & SA, London, England, under a security fund agreement."

Year ended 31/12/88

G7.18 The Managing Agent's Report contained the following statements:

"Open Account

The Syndicate is in dispute with another Lloyd's Syndicate, managed by Merrett Underwriting Agency Management Ltd, concerning the run-off policy for Syndicate 297 placed in 1982 and subsequently amended to include Syndicate 299. The matter is due to go to arbitration and once the matter is settled the 1985 Account will close as soon as practicable. A full distribution on account of profits was made last year and assuming a successful outcome of the arbitration there should be only a small balance either to pay to or owing from the 1985 Members. In consequence, the closing 1986 Account receives no reinsurance from a previous year and therefore is treated as a 'pure' year on its own...

Future Plan

In the present market conditions it is anticipated that there will be only a minimal expansion for the 1990 account."

G7.19 The Underwriter's Report contained the following statements:

"Reinsurance Arrangements

... During its earlier years the Syndicate in common with many others in Lloyd's wrote liability business which has produced many claims in respect of asbestosis and other industrial diseases and also environmental pollution losses.

A run-off protection was taken out in 1982.

There is also an Aggregate Excess Reinsurance in existence for the Syndicate's US$ Account.

See note 5 to the accounts for details of these protections...

1987 and 1988 Open Years

...This time last year I indicated that I felt 1987 would produce a small release to names - however the year is settling higher than anticipated and I now estimate that it will produce a small deficit.

The 1988 Account has been affected very seriously by the loss of the rig Piper Alpha in July 1988. This was the largest loss in the history of the oil industry.

During the latter half of the Year I wrote to Members and agents indicating that the direct loss was contained within the Syndicate's specific Rig protections and this has been proved to be correct.

I also expressed the hope that the Excess of Loss account claims would be contained within the available reinsurance protection. As Members are aware this section is the most volatile and hence the most difficult to quantify due to its "incestuous" nature. Thus it is feasible that the loss could exceed the reinsurance available.

On a worst likely outcome basis the claim, excess of reinsurance, would be in the region of US $30,000,000. However, in view of the distinct possibility that the original claim was overestimated we could find ourselves within our protection. I must stress that it is not possible to be definitive on this class of business and the fact that the original claim is almost entirely in the London Market makes accurate forecasting even harder. My latest estimate, based on a study of the many policies written is that the probable loss could be in the region of US $10,000,000. This figure would be split 88½% to the 1988 Account and 11½% to the 1987 Account and would result in a cost to Members of 12% on the 1988 Account and 2% on the 1987 Account in respect of this casualty..."

G7.20 The Notes to the Accounts disclosed that:

"<u>REINSURANCE - SPECIAL CONTRACTS</u>

(a) The incidental non-marine content of Syndicates 299/297 is protected by an unlimited aggregate excess of loss protection for settlements on and after 1st January 1982.

The policy covers Syndicate 297 for the 1977 account and prior years and Syndicate 299 for its incidental non-marine content for the 1956 account and prior years.

Of the anticipated reinsurance recoveries at 31st December, 1988 of £12,017,232 (see note 3), £3,988,214 (£3,202,208 - 31st December, 1987) relates to this policy.

(b) The Syndicate's whole US dollar account is further protected by an Aggregate Excess Reinsurance policy covering the 1982 and prior years of account, in respect of settlements on and after 1st January, 1985.

The policy limit is $750,000 excess of $6,000,000 with no timing restrictions on recovery. The balance of any unutilised cover may be reclaimed by the Syndicate on 16th February, 1991.

At 31st December, 1988 $5,051,661 (1987 $4,377,940) of the $6,000,000 has been settled.

The premium paid ($435,000) to effect the above policy was charged with premiums in respect of reinsurances ceded in the 1982 account as at 31st December, 1984.

The policy is protected by stock with a redemption value of $750,000 lodged with Bank of America, NT & SA, London, England, under a security fund agreement."

Year ended 31/12/89

G7.21 The Managing Agent's Report stated that:

> "In the present market conditions it is still our present intention to expand the capacity on this Syndicate for the 1991 Account".

G7.22 Mr David Jewell became the Active Underwriter of Syndicate 299/297 in the course of 1989. His Underwriter's Report contained the following statements:

> "... In anticipation of the emergence of a resulting more positive market we plan to increase the capacity of our Syndicate so that we can approach the future prepared and equipped to take full advantage...
>
> 1985 OPEN YEAR
>
> ... Unfortunately, a deterioration of the account has occurred as a result of an increase in advices of claims arising from Asbestosis, Silicosis and Environmental Pollution. The current position, after having taken credit for anticipated recoveries from the reinsurance under dispute, is a loss of 5.7% after personal expenses ..."

G7.23 The Notes to the Accounts contained the following statement:

> "REINSURANCE - SPECIAL CONTRACTS
>
> (a) The incidental non-marine content of Syndicates 299/297 is protected by an unlimited aggregate excess of loss protection for settlements on and after 1st January 1982.
>
> The policy covers Syndicate 297 for the 1977 account and prior years and Syndicate 299 for its incidental non-marine content for the 1956 account and prior years.
>
> Of the anticipated reinsurance recoveries at 31st December 1989 of £14,735,086... £5,464,528 (£3,988,214 - 31st December 1988) relates to this policy.
>
> (b) The Syndicate's whole US Dollar account is further protected by an Aggregate Excess Reinsurance policy covering the 1982 and prior years of account, in respect of settlements on and after 1st January 1985.

The policy limit is $750,000 excess of $6,000,000 with no timing restrictions on recovery. The balance of any unutilised cover may be reclaimed by the Syndicate on 16th February 1991.

At 31st December 1989 $5,504,559 (1988 $5,051,661) of the $6,000,000 has been settled.

The premium paid ($435,000) to effect the above policy was charged with premiums in respect of reinsurances ceded in the 1982 account as at 31st December 1984.

The policy is protected by stock with a redemption value of $750,000 lodged with Bank of America, NT & SA, London, England, under a security fund agreement."

Year ended 31/12/90

G7.24 The Underwriter's Report contained the following statement:

"1985 CLOSED YEAR

... I believe we can justifiably feel a great sense of pride in the outcome of the arbitration on the disputed reinsurance contract detailed in the Managing Agents Report that has hung like a great cloud over the Syndicate and kept this account open for such a long time ..."

G7.25 The Notes to the Accounts stated that:

"REINSURANCE - SPECIAL CONTRACTS

(a) The incidental non-marine Syndicate 297 is protected by an unlimited aggregate excess of loss protection for settlements on and after 1st January 1982. The policy covers the 1977 account and prior years.

Of the anticipated reinsurance recoveries at 31st December 1990 of £17,038,862 (see note 3) £5,316,139 (£5,464,528 - 31st December 1989) relates to this policy.

(b) The Syndicate's whole US Dollar account is further protected by an Aggregate Excess Reinsurance policy covering the 1982 and prior years of account, in respect of settlements on and after 1st January 1985.

The policy limit is $750,000 excess of $6,000,000 with no timing restrictions on recovery.

At 31st December 1990 $5,806,348 (1989 $5,504,559) of the $6,000,000 has been settled and the present value of the indemnity has been estimated $744,329.

The premium paid ($435,000) to effect the above policy was charged with premiums in respect of reinsurances ceded in the 1982 account as at 31st December 1984.

The policy is protected by stock with a redemption value of $750,000 lodged with Bank of America NT & SA, London, England, under a security fund agreement".

G8. Syndicate 387

Year Ended 31/12/87

G8.1 No time and distance policies had been purchased by Syndicate 387 until 1987.

G8.2 The Underwriter's Report contained the following statement:

"Reinsurance Arrangements

The syndicate is protected by "Whole Account Stop Loss" with underlying "Risk Excess" reinsurances. Risk Excess is where we protect a proportion of each policy limit in excess of a percentage of that limit. This cover is hard to purchase and coverage has changed from year to year, depending on markets; it substantially reduces our aggregate exposure and protects our Whole Account Stop Loss. The Whole Account Stop Loss reinsurance protects aggregate net losses in excess of a level related to premium income for that year of account. Again, the level of cover varies from year to year.

During 1987 we have purchased protection from the 1987 year of account similar to that protecting the earlier year, though with reduced Risk Excess cover. We have also added to the Whole Account Stop Loss protection on the 1984, 1985 and 1986 years of account to reduce the excess on those years".

It is difficult to discern whether or not the last sentence was intended to relate to the purchase of time and distance reinsurance from Pinnacle (Ref: 875400) with the premium payable on 19th January

1987. There was no further disclosure of these policies in the accounts at 31/12/87 (nor for that matter was any further disclosure made in the accounts at 31/12/88).

G8.3 The accounts did not give details of the premiums paid nor amounts of cover obtained, which were as follows:

Year of Account	Premium (£)	Cover (£)
1984	205,500	230,000
1985	204,000	235,000
1986	203,500	250,000

Year ended 31/12/88

G8.4 The Underwriter's Report contained the following statements;

"Reinsurance Arrangements

The Syndicate is protected by "Whole Account Stop Loss" with underlying "Risk Excess" reinsurances. Risk Excess is where we protect a proportion of each policy limit in excess of a percentage of that limit. This cover is hard to purchase and coverage has changed from year to year, depending on markets; it substantially reduces our aggregate exposure and protects our Whole Account Stop Loss. The Whole Account Stop Loss reinsurance protects aggregate net losses in excess of a level related to premium income for that year of account. Again, the level of cover varies from year to year.

During 1987 we purchased protection similar to that protecting the earlier years, though with reduced Risk Excess cover. For 1988 we maintained the Stop Loss protection but were unable to renew our Risk Excess. For the 1989 account we maintained our Whole Account Stop Loss protection and purchased a limited amount of Risk Excess protection ..."

G8.5 Again, the accounts did not provide details of premiums or cover which were as follows:

Year of Account	Premium (£)	Cover (£)
1985	204,000	260,000
1986	203,500	250,000
1987	240,000	300,000
1988	281,000	375,000

The cover provided in respect of 1985 and 1986 had been increased from that indicated a year earlier as a result of deferring recoveries. The coverage in respect of the 1984 year of account (£230,000) had been collected in 1988.

Year ended 31/12/89

G8.6 The Managing Agent's Report stated that:

> "As already advised we shall not be writing any business for the 1990 year of account."

G8.7 The Underwriter's Report contained the following statements:

> "Reinsurance Arrangements
>
> The Syndicate is protected by "Whole Account Stop Loss" with underlying "Risk Excess" reinsurances. Risk Excess is where we protect a proportion of each policy limit in excess of a percentage of that limit. This cover is hard to purchase and coverage has changed from year to year, depending on markets; it substantially reduces our aggregate exposure and also benefits our Whole Account Stop Loss. The Whole Account Stop Loss reinsurance protects aggregate net losses in excess of a level related to premium income for that year of account. Again, the level of cover varies from year to year.
>
> During 1987 we purchased protection similar to that for the earlier years, though with reduced Risk Excess cover. For 1988 we maintained the Whole Account Stop Loss protection but were unable to renew our Risk Excess. For the 1989 Account we maintained our Whole Account Stop Loss protection and purchased a limited amount of Risk Excess protection ...
>
> 1987, 1988 and 1989 Accounts
>
> In addition to the ever-present threat of long tail liabilities, there have been some major catastrophe losses in the Market,

which will surely provoke loss situations on a number of Syndicates. The European Storm in October 1987 now seems less of a threat to Syndicate results, but Piper Alpha in July 1988 and Hurricane Hugo in September 1989 have all received much publicity and are expected to have a severe impact on Lloyd's. How this will affect Syndicate 387 remains to be seen, though to look on the bright side there is a much greater volume of premiums coupled to a lower exposure to claims than hitherto on all these years of account.

Since last year's account, as we advised you, the Syndicate had to cease trading in the Personal Stop Loss Market at the end of last year. As you can see by the preceding comments, the open year problems of Lloyd's Syndicates made it impossible for us to carry on. In the final years we had substantially increased excess points and premiums but regrettably, although Lloyd's have tried to take action to solve the problem of the open Syndicates, I believe it will be very difficult to achieve with the "true and fair" audit.

We were able to make good profits in the early years but unfortunately there does not seem to be any good news for the final years of the Syndicate".

G8.8 A Note to the Accounts disclosed the following information about the time and distance reinsurance purchased:

"<u>Reinsurance - Special Contracts</u>

The Syndicate has effected certain aggregate reinsurance contracts whereby, as a policy condition, claims can only be collected on or after specific future dates. The policy details are:

Premium Paid	Year Benefiting	Year Paying	Premium	Recovery Date	Indemnity
(a) 19/1/87	1985	1985	£204,000	30/1/91	£292,500
(b) 19/1/87	1986	1986	£203,500	30/1/91	£281,500
(c) 1/1/88	1987	1987	£240,000	31/1/91	£300,000
(d) 30/12/88	1988	1988	£1,000,000	30/11/91	£1,250,000
(e) 25/10/89	1988	1988	£281,000	30/1/92	£375,000
(f) 25/10/89	1989	1989	£1,000,000	30/11/92	£1,400,000

The recoveries in respect of 1985 and 1986 had been increased from those indicated a year earlier as a result of further deferrals of recoveries.

Year ended 31.12.90

G8.9 The Managing Agent's Report stated that:

> "Run-Off Accounts
>
> It is with regret that we must tell you that the Syndicate has decided to leave open the 1987 year of account in addition to those for the 1983, 1984, 1985 and 1986 years...
>
> Future Plans
>
> As already advised it was decided not to write any business for the 1990 year of account and thereafter. Syndicate 387 will be run-off and closed as soon as possible."

G8.10 The Underwriter's Report contained the following statements:

> "Reinsurance Arrangements
>
> The Syndicate is protected by "Whole Account Stop Loss" with underlying "Risk Excess" reinsurances. Risk Excess is where we protect a proportion of each policy limit in excess of a percentage of that limit. This cover was hard to purchase and coverage changed from year to year, depending on markets; it substantially reduced our aggregate exposure and also benefited our Whole Account Stop Loss. The Whole Account Stop Loss reinsurance protects aggregate net losses in excess of a level related to premium income for that year of account. Again, the level of cover varied from year to year.
>
> During 1987 we purchased protection similar to that for the earlier years, though with reduced Risk Excess cover. For 1988 we maintained the Whole Account Stop Loss protection but were unable to renew our Risk Excess. For the 1989 Account we maintained our Whole Account Stop Loss protection and purchased a limited amount of Risk Excess protection ...

G8.11 The Notes to the Accounts disclosed the following information:

"Reinsurance - Special Contracts

The Syndicate has effected certain aggregate reinsurance contracts whereby, as a policy condition, claims can only be collected on or after specific future dates. The policy details are:

Premium Paid	Year Benefiting	Year Paying	Premium	Recovery Date	Indemnity	Present Value of Indemnity
(a) 19/1/87	1985	1985	£204,000	30/1/91	£292,500	£292,500
(b) 19/1/87	1986	1986	£203,500	30/1/91	£281,500	£273,806
(c) 1/1/88	1987	1987	£240,000	31/1/91	£300,000	£291,644
(d) 30/12/88	1988	1988	£1,000,000	30/11/91	£1,250,000	
(e) 25/10/89	1988	1988	£281,000	30/1/92	£375,000	£1,451,096
(f) 25/10/89	1989	1989	£1,000,000	30/11/92	£1,400,000	£1,108,454

Policy (a) above matured on 30th January 1991 and the sum of £292,500 has been accrued in the accounts and credited to the 1985 year of account.

The indemnity of each policy is protected by a letter of credit issued by an authorised bank in the United Kingdom."

G9. Syndicate 514

Year Ended 31/12/86

G9.1 Syndicate 514 was a very small syndicate. Its capacity in 1978 was only £75,000 which had increased to £545,000 by 1985, its last year of account.

G9.2 The syndicate had produced excellent results for Names up to and including the 1980 year. The 1980 and prior years were reinsured with another GWL syndicate and the syndicate commenced trading as a specialist yacht syndicate. Thereafter substantial losses were incurred. Reported results for a £10,000 share were as follows:

Year of Account	Results	Profit or Loss
1978	£7,222	Profit
1979	£6,493	Profit
1980	£3,680	Profit
1981	£(863)	Loss
1982	£(1,730)	Loss
1983	£(4,333)	Loss
1984	£(3,281)	Loss
1985	£(2,176)	Loss

G9.3 Before closing the 1984 account at 31/12/86, the syndicate purchased a time and distance policy from Pinnacle (Ref: 875464) providing coverage of £155,000 excess of £21,000 and protecting the 1984 and prior years of account. The premium of £110,000 and LOC fees of £1,679 were payable on 5th April 1987.

G9.4 The Underwriter's Report at 31/12/86 stated as follows:

> "The purchase of an Aggregate Excess Reinsurance for all claims paid after 1st January 1987 for 1984 and previous years has reduced the loss on 1984 by approximately £40,000".

G9.5 Note 2 to the Accounts for that year disclosed the "credit taken for anticipated recovery £155,000" and the "premium payable to effect the policy (£112,000)".

G9.6 What was not disclosed was the purchase by Syndicate 514 of a timing risk reinsurance from Syndicate 290 for a premium of £7,000 payable on 5th May 1987. The operation of this timing risk reinsurance is explained in Section J below.

<u>Year Ended 31/12/87</u>

G9.7 The Underwriter's Report stated as follows:

> "<u>Closed Year</u>
>
> The improvements in claims settlements that were showing at this time last year have continued, although at a lower level than was hoped for.

The purchase of the Run-off reinsurance at a cost of £131,857 means that the 1985 Account shows an underwriting loss for Names which is much regretted, but we are able to avoid all of the problems of keeping a syndicate open. We believe that, overall, closing the syndicate now will be more advantageous to all concerned.

As the premium for the Run-off reinsurance is not divided between years of account, it is impossible to specify the extent to which the underwriting loss relates to earlier years of account.

The Excess of Loss business in the 1985 Account went a long way to ease the syndicate cash flow, the result of which can be seen in the much reduced interest payable, down to under a third of the 1984 account figure.

The Aggregate Excess reinsurance purchased last year has already been put to use, but the benefit of the balance of the policy will go to the underwriters of the Run-off policy.

...

Conclusion

Although the settlement figures of the 1985 account are better than those for 1984, after meeting the cost of the Run-off reinsurance the Underwriting result is almost the same as last year, which is most disappointing. In addition, apart from interest, the syndicate expenses have increased dramatically, as this year we have had to bear certain costs for three years (ie. Audit Fees and Computer charges, etc.).

The final result therefore, after a contribution of £100,000 from the Managing Agent, is a loss of £110,900 before personal expenses, a little better than last year, but at least the syndicate is able to close off the account".

G9.8 The circumstances in which this syndicate ceased operation is the subject of a separate review by GWRO.

H. IMPACT ON RESULTS

H1. Introduction

H1.1 We have set out in Section G above a detailed description of the treatment in the syndicate accounts of the time and distance policies purchased for the Gooda Walker syndicates. We now set out below the impact which such purchases had on the syndicate results as a consequence of the relevant accounting treatment. The Syndicate Auditors have, in their response to the draft Report, emphasised their belief that:

> "The actual accounting treatment was in accordance with the current practice within the Lloyd's market and consistent with the treatment adopted by other syndicates".

H1.2 We set out in Section F1 above our findings as to GWL's reasons for purchasing time and distance policies. As can be seen below, the Gooda Walker time and distance programme had a substantial impact on the reported results of certain of the Gooda Walker syndicates.

H1.3 During the 1970's, the newly-formed Association of Lloyd's Members ("ALM") began publishing what they categorised as "Lloyd's League Tables". As part of their review, syndicates were divided by Class of Business written and then ranked (for 1979) on the basis of total result as a percentage of premium written and in relation to the cheque paid for a £10,000 share. The ALM defined rankings as follows:

> "the position in the table of the syndicate in terms of profitability on the total result as a percentage for the premium income written" and
>
> "the position in the table of each syndicate on the cheque a Name received for a £10,000 share".

H1.4 The results were prepared on the same basis for 1980 but a further categorisation was added for the 1981 results when syndicates were divided by class according to their quartile A, B, C or D. This ranking was calculated according to the size of the cheque for a £10,000 line. As a syndicate producing a profit cheque of only £1 more than another syndicate might be in a higher quartile the ALM notes stated that consistency of performance was important.

H1.5 The format also varied for 1983 with the syndicate results being ranked in quintiles A-E, both as to the total result and cheque for a £10,000 line. This system of ranking was subsequently brought to an end.

H1.6 The results for the 1983 account would have been available for Names in time for their decision as to participation in the 1987 account.

H1.7 On the quintile basis for 1983, the rankings were as follows:

	Year of Account	Underwriting	Cheque
Syndicate 164	1981	A	A
	1982	A	A
	1983	A	A
Syndicate 290	1981	A	A
	1982	A	A
	1983	A	A
Syndicate 295	1981	D	E
	1982	C	C
	1983	B	D

Thus, Syndicates 164 and 290 were shown to be very high performers and Syndicate 295 was showing an improvement after bad results in the late 1970's. Without the benefit of time and distance reinsurance, Syndicate 164's ranking for 1983 and Syndicate 290's rankings for 1981 and 1983 would have been very different (see tables below). It has been suggested to us that the results (and therefore the rankings) of other Lloyd's syndicates may also have been affected by the use of time and distance policies.

H1.8 The tables below (which set out the impact on syndicate results of the time and distance policies) of necessity ignore one element, namely the investment income which would have accrued to each syndicate in later years had the policies not been taken out. Such income would have depended on numerous factors the effect of which is difficult and might be misleading to estimate.

H1.9 The proportion of gross reserves represented by time and distance policies is set out in Appendix 11.

H2. Syndicate 164

H2.1 An analysis of the time and distance policies purchased by Syndicate 164 for the years of account from 1980 to 1988 inclusive illustrates the impact which these policies had on the reported results.

H2.2 We have prepared the following table from figures provided in the syndicate accounts for the years in question.

Year of Account	Syndicate Capacity (£)	Profit/(Loss) Before T&D Benefit Taken (£)	Net T&D Benefit Taken (£)	Profit Commission Adjustment (£) (8)	Published Profit/(Loss) After Personal Expenses (£)
1980	7,070,000	(897,129)	(1) 1,481,481	0	584,352
1981	7,345,000	810,140	0		810,140
1982	7,545,000	878,599	0		878,599
1983	10,305,000	(1,687,119)	(2) 2,082,759	0	395,640
1984	14,945,000	146,468	(3) 712,838	124,319	734,987
1985	26,215,000	2,101,194	(4) (232,979)	(49,010)	1,917,225
1986	41,915,000	9,903,515	(5) 113,260	21,429	9,995,346
1987	48,605,000	(5,883,326)	(6) 169,876	0	(5,713,450)
1988	46,392,000	5,772,465	(7) 124,352	22,557	5,874,260

Notes

With effect from the 1988 account syndicate capacities were restated to incorporate a reinsurance allowance ("franchise"). The capacity for 1988 has therefore been adjusted so that all the above figures are shown on a comparable "net" basis.

Published Profit (Loss) figures for 1980-85 are shown after deduction of personal expenses and taxation on investment earnings. For 1986 and onwards figures are shown after personal expenses and taxation on the underwriting result, where applicable.

The reported results for 1982 and prior years may also have been affected by certain inter-syndicate quota share reinsurances which are under investigation.

(1) 1980 and prior years were protected by an unlimited run-off policy written by Outhwaite and Merrett syndicates, as mentioned in paragraph G2.1 above. In addition, the syndicate purchased two reinsurances from Meacock giving combined protection of $6m excess of $9m. The benefit of £1,481,481 shown relates only to the Meacock policies.

(2) Policy T86G123: see paragraph G2.10 above.

(3) Policy 87DP00111: see paragraph G2.20 above.

(4) This was an additional premium in respect of Policy 87DP00111: see paragraph G2.29 above.

(5) Policy T86G054: see paragraph G2.21 above. This was an in-account policy. The profit of £9,995,346 was the result declared at 31/12/88. The 1986 year remains "open".

(6) Policy T87G184 (see paragraph G2.30 above) and Policy DA5552N00 (see paragraph G2.28 above). These were in-account policies.

(7) Policy T88G184: see paragraph G2.36 above. This was also an in-account policy.

(8) The Profit Commission Adjustment represents the amount attributable to T&D policy adjustments.

H3. Syndicate 290

H3.1 An analysis of the time and distance policies and the results of Syndicate 290 for the years of account from 1981 to 1988 inclusive illustrates the impact which these policies had.

H3.2 We have prepared the following table from the figures provided in the syndicate accounts for the years in question.

Year of Account	Syndicate Capacity (£)	Profit/Loss Before T&D Benefit Taken (£)	Net T&D Benefit/(Cost) taken (£)	Profit Commission Adjustment (£) (8)	Published Profit after Personal Expenses (£)
1981	5,135,000	(755,904)	(1) 3,210,000	460,096	1,994,000
1982	6,150,000	1,387,621	(2) (8,621)	0	1,379,000
1983	8,135,000	(134,406)	(3) 1,351,000	228,594	988,000
1984	13,485,000	1,277,000	-	0	1,277,000
1985	25,295,000	(4,257,381)	(4) 7,891,000	567,619	3,066,000
1986	37,275,000	4,870,497	(5) 4,585,000	1,337,497	8,118,000
1987	48,165,000	(501,479)	(6) 5,766,000	852,521	4,412,000
1988	53,651,000	10,160,400	(7) 997,000	228,400	10,929,000

Notes

With effect from the 1988 account syndicate capacities were restated to incorporate a reinsurance allowance ("franchise"). The capacity for 1988 has therefore been adjusted so that all the above figures are shown on a comparable "net" basis.

Published Profit (Loss) figures for 1981-85 are shown after deduction of personal expenses and taxation on investment earnings. For 1986 and onwards figures are shown after personal expenses and taxation on the underwriting result, where applicable.

The report results for 1982 and prior years may also have been affected by certain inter-syndicate quota share reinsurances which are under investigation.

The reported results may also have been affected by transactions relating to rollover policies which are still under investigation.

(1) Policy 84MX01776: see paragraph G3.2 above.

(2) There was an additional premium of $10,000 in respect of Policy 84MX01776: see paragraph G3.7 above.

(3) Policy 86DP00110: see paragraph G3.13 above.

(4) Policies 84MX01776 and 86DP00110: see paragraphs G3.19 and G3.28 above.

(5) Policy DA615R00: see paragraph G3.35 above.

(6) Policies 86DP00110 and DA6241R00: see paragraph G3.39 above. In addition to the figure of £5,766,000, there were numerous transactions as set out in Appendix 10 in relation to Policy DA5551N00 which appear to have resulted in an overall loss to the syndicate of approximately £300,000. It would appear that the effect of Policy DA5551N00 was in large measure to convert US dollar premiums into sterling recoveries and for this reason the

payments and receipts in respect of this policy have not been taken into account for the purpose of calculating the time and distance benefit taken. This policy is considered further in Section L below.

(7) Policies (1) and (2) (Refs: DA5852P00 and DA5955P00): see paragraph G3.37 above. These were in-account policies.

(8) The Profit Commission Adjustment represents the charge paid by Names (directly attributable to the T&D benefit) which would not otherwise have been payable.

H4. Syndicate 295

H4.1 An analysis of the time and distance policies and the results of Syndicate 295 for the years of account from 1979 to 1988 inclusive illustrates the impact which these policies had. The table below does not take account of the benefit arising from the excess of loss protections referred to in paragraph G4.1.

H4.2 We have prepared the following table from the figures provided in the syndicate accounts for the years in question.

Year of Account	Syndicate Capacity (£)	Profit/Loss Before T&D Benefit Taken (£)	Nett T&D Benefit/(Cost) Taken (£)	Profit Commission Adjustment (£) (5)	Published Profit/(Loss) After Personal Expenses (£)
1979	9,805,000	(5,738,949)	(1) 2,472,251		(3,266,698)
1980	9,740,000	(7,532,721)	(2) 6,126,543		(1,406,178)
1981	8,315,000	86,947	0		86,947
1982	7,670,000	435,968	0		435,968
1983	5,995,000	188,496	(3) 189,655	12,939	365,212
1984	6,555,000	954,837	0		954,837
1985	8,710,000	4,111	0		4,111
1986	11,505,000	3,106,566	(4) (1,071,823)	(240,919)	2,275,662
1987	13,995,000	1,793,639	0		1,793,639
1988	16,848,000	1,631,807	0		1,631,807

<u>Notes</u>

With effect from the 1988 account syndicate capacities were restated to incorporate a reinsurance allowance ("franchise"). The capacity for 1988 has therefore been adjusted so that all the above figures are shown on a comparable "net" basis.

Published Profit (Loss) figures for 1979-85 are shown after deduction of personal expenses and taxation on investment earnings. For 1986 and onwards figures are shown after personal expenses and taxation on the underwriting result, where applicable.

The reported results for 1982 and prior years may also have been affected by certain inter-syndicate quota share reinsurances which are under investigation.

The reported results may also have been affected by transactions relating to rollover policies which are still under investigation.

The 1978 account was improved by £1,619,939 in respect of the excess of loss policies mentioned in Section G4.1

(1) Policies purchased from First State Insurance Company: see paragraph G4.4 above.

(2) Policy 83MX01590: see paragraph G4.9 above.

(3) Policy 83MX01590: see paragraph G4.21 above.

(4) See paragraph G4.35 above.

(5) The Profit Commission Adjustment represents the amount attributable to T&D policy adjustments.

H5. Syndicate 298/222

H5.1 Only two years of account, 1986 and 1988, were affected by the purchase of time and distance policies.

H5.2 In 1988, for the 1986 account, Syndicate 298 took the net benefit of a time and distance policy in the sum of £649,807 (see paragraph G6.10). The declared profit of the syndicate before personal expenses was £5,041,852.

H5.3 A further benefit was taken on the 1988 account of £33,679. This small net benefit arose as a result of the premature commutation of the 1988 account policies on unfavourable terms. The syndicate reported an overall loss of £70,175,575 before personal expenses.

H6. Syndicate 299/297

The only year of account affected by the use of time and distance policies was 1982. The net benefit taken was £194,444 and the syndicate reported an overall profit of £1,296,816 before personal expenses.

H7. Syndicate 387

H7.1 As a personal stop loss syndicate, Syndicate 387 would normally seek to close a year of account after four years. However, in view of uncertainties regarding future claims, the 1983 and subsequent years have not been closed.

H7.2 The benefit taken for time and distance policies is relatively modest, but for the sake of completeness the table below summarises the figures included in each year of account at the end of its fourth year and in each subsequent year (after taking account of the time and distance benefits taken).

	Profit/(Loss) Reported Before Personal Expenses (£)		T&D Benefit Taken (£)
At 31st December 1987:			
1984 account	(566,631)	Loss	24,500
At 31st December 1988:			
1984 account (cumulative)	(1,030,526)	Loss	24,500
1985 account	321,849	Profit	56,000
At 31st December 1989:			
1984 account (cumulative)	(1,298,867)	Loss	24,500
1985 account (")	(473,763)	Loss	88,500
1986 account	1,822,829	Profit	78,000
At 31st December 1990:			
1984 account (cumulative)	(1,928,707)	Loss	24,500
1985 account (")	(923,016)	Loss	88,500
1986 account (")	86,457	Profit	78,000
1987 account	(656,373)	Loss	60,000

H8. Syndicate 514

Only the 1984 account was affected by the purchase of time and distance reinsurance. The reported loss before personal expenses was £138,443 after taking a net credit for the time and distance reinsurance of £36,321 (being the indemnity of £155,000 less the premium of £110,000, LOC charges of £1,679 and timing risk premium of £7,000).

I. **GROWTH IN CAPACITY**

11. We have compared the growth in Syndicates 164, 290 and 295 with the overall increase in Lloyd's capacity during the 1980's.

Year of Account	Lloyd's Capacity £m's	% Change	Synd 164 Capacity £000s	% Change	Synd 290 Capacity £000s	% Change	Synd 295 Capacity £000s	% Change
1979	2,345		6,635		4,730		9,805	
1980	2,627	12.0	7,070	6.6	4,885	3.3	9,740	-0.7
1981	2,740	4.3	7,345	3.9	5,135	5.1	8,315	-14.6
1982	3,162	15.4	7,545	2.7	6,150	19.8	7,670	-7.8
1983	3,370	6.6	10,305	36.6	8,135	32.3	5,995	-21.8
1984	3,915	16.2	14,945	45.0	13,485	65.8	6,555	9.3
1985	5,140	31.3	26,215	75.4	25,295	87.6	8,710	32.9
1986	6,547	27.4	41,915	59.9	37,275	47.4	11,505	32.1
1987	7,915	20.9	48,605	16.0	48,165	29.2	13,995	21.6
1988	8,475	7.1	46,392	-4.6	53,651	11.4	16,848	20.4
1989	8,427	-0.6	44,032	-5.1	54,045	0.7	15,132	-10.2

Note: With effect from the 1988 account syndicate capacities were restated to incorporate a reinsurance allowance ("franchise"). The figures for 1988 and 1989 have therefore been restated so that all the above figures are shown on a comparable "net" basis.

12. The mid-1980's was a period of substantial expansion in the capacity of Lloyd's as a whole and in the excess of loss market in particular.

13. During the mid-1980's, the capacities of Syndicates 164 and 290 were increasing at a rate even faster than that for Lloyd's as a whole. After capacity reductions in the early 1980's (presumably as a result of poor results reported around that time), Syndicate 295 also saw substantial growth.

14. The wider circulation of Lloyd's League Tables to the general body of Names highlighted the profits being reported by the Gooda Walker syndicates and may have influenced Members' Agents and Names in deciding whether to seek capacity with the Gooda Walker syndicates.

15. A particular problem for Members' Agents and Names when reviewing whether and to what extent to participate on any particular syndicate is the age of the financial information available when they make these decisions. Such decisions must be made in the period between August and November preceding the year of account in question. Although preliminary loss development patterns may be

available for the two most recent open years, it is only when the accounts are closed and audited at the end of the third year that reliable financial data is available. Thus, for example, a Name considering in August to November 1984 the level of his underwriting for the 1985 year of account would have had available audited results for the 1981 year of account. The 1981 year of account of Syndicate 290 closed with a profit of 38% of capacity.

16. The Syndicate Auditors have suggested that Members' Agents when making recommendations would have had more regard to future prospects than past results and they drew our attention to the following statement in the Underwriters' and Managing Agents' Report of Syndicate 290 at 31/12/83:

> "We would like to comment on the outlook of this Syndicate which we feel has good prospects for the future. We had our largest loss since we started in 1983 when a hurricane hit the Galveston area in Texas. This has produced large insurance claims in the United States and also in the London Market. As a result of this loss, it has enabled us to assess how a major catastrophe could effect our Syndicate and because of this we have been able to get substantial increases on Excess of Loss renewals for 1984. Our approach to reinsurance remains unchanged, we purchase substantial cover to protect the Syndicate against a major catastrophe. This has to be balanced against obtaining only the best security when we have to reinsure outside the Lloyd's Market".

Projections about the future are obviously important, but it would be naive to assume that Members' Agents and Names pay no heed to past results when considering the attractions of a particular syndicate. Had Syndicate 290 produced a breakeven result, let alone a loss of some 18%, for the 1981 account, the 88% expansion in the size of the syndicate between 1984 and 1985 would, in our view, have been less likely.

J. TIMING RISKS

J1. General

J1.1 A general description of timing risk issues is given in Section E2 above.

J1.2 During the course of our investigation we have looked both at the purchase of timing risk reinsurances by GWL and also at the underwriting of such reinsurances by the Gooda Walker syndicates. This section of our Report is concerned only with the purchase of such reinsurances.

J1.3 We discussed the question of timing risk reinsurance with Pinnacle. We were told that Pinnacle would accept such risks only after rigorous and intense analysis of the risk. Pinnacle stated that this could only be done with detailed data being made available to their actuaries and underwriters. In the case of GWL no such data was made available and accordingly Pinnacle would not accept any timing risk of GWL syndicates unless they in turn had the benefit of a retrocession for this element of the contract.

J1.4 We have been informed by the Syndicate Auditors that they were aware of the inter-syndicate timing risk reinsurance written by Syndicate 290 as a following line behind a non-connected Lloyd's syndicate in relation to the First State policies purchased by Syndicate 295 (see paragraph G4.5) but "other than that instance [they were] not aware of any cases where the timing risk has been written by another syndicate within the group".

J1.5 We have seen three examples where Gooda Walker syndicates purchased policies from Pinnacle without restrictions as to the date(s) on which claims could be made. We have established that Pinnacle in turn retroceded the timing risk elements to other Gooda Walker syndicates. Furthermore, we have seen two examples where, at the same time as ceding the timing risk element, part of the indemnity was also reinsured into the other Gooda Walker syndicates.

J1.6 The premiums for the reinsurances referred to in paragraph J1.~~4~~5 do not appear to have been calculated at arms length by an unrelated syndicate or company (see correspondence with Lloyd's in Appendix 13).

J2. Syndicate 290

J2.1 Syndicate 290 purchased one time and distance policy (Ref: 84MX01776) effective 2nd May 1984 from Pinnacle providing an indemnity of $8,150,000 excess of $9m which carried no restrictions as to the timing of claims (see paragraph G3.2). The broker involved in placing this contract was Mr Goodier, then of GSW. Our investigation has revealed that Pinnacle retained $6m of the liability and purchased investments to realise this amount (deposited into an SFA). The balance of the indemnity ($2,150,000) was reinsured with Meacock Syndicate 727 together with a timing risk reinsurance which protected Pinnacle against the risk of being required to pay claims to Syndicate 290 in advance of the investment maturity dates. Syndicate 727 then in turn purchased from Syndicate 164 a reinsurance in respect of its liability to Pinnacle. Mr Goodier was again the broker of the reinsurance placed by Pinnacle with Syndicate 727 and of Syndicate 727's retrocession with Syndicate 164. Mr Judd has informed us that Syndicate 164's line on the Syndicate 727 timing risk reinsurance was written by Mr Walker and that he (Mr Judd) was not consulted.

J2.2 The Syndicate 727 reinsurance of Pinnacle provided as follows:

"Now therefore it is agreed as follows:

ARTICLE 1
INSURING CLAUSE

1. To indemnify the reassured for any part of their ultimate nett loss which exceeds the reassured's anticipated amounts of ultimate nett loss development as set out in schedule A of Article 2 under a policy issued to the original reinsured for the following original limits; US $8,150,000 in excess of US $9,000,000 in respect of losses settled on or after 1st January 1984 on underwriting years 1981 and prior, with commutation provisions as at 31st December 1990 and annually thereafter.

2. Additionally, in the event that at or before 31st March 1991 but not after the date loss settlements by the Reassured shall exceed US $6,000,000 then this policy shall indemnify the Reassured for a further US $2,150,000. However in the event that liability under the original contract is not commuted as at 31st December 1990 then indemnification for US $2,150,000 shall remain in force".

J2.3 Subsequently there were several variations to the terms of Policy 84MX01776. We assume that corresponding alterations were made to the Meacock reinsurance of Pinnacle. We make this assumption on the basis that we have identified variations to Syndicate 164's reinsurance of Meacock which reflect those made to Policy

84MX01776. We have not had access to the files maintained by Syndicate 727 in order to verify this assumption. In June 1987, the broker of record was changed from GSW to Heaths on all of these policies. Heaths were therefore also aware of the circuitous nature of the risk. We are unable to say whether or not Pinnacle knew that Syndicate 727 had retroceded the risk to Syndicate 164 but Pinnacle did underwrite a further time and distance policy to ameliorate Syndicate 164's loss (see Section J2.10 below).

J2.4 We have spoken to Mr Meacock to ask him what he could recall about the writing of the risk. Mr Meacock believes there were two meetings with Mr Goodier and it is possible that at the first meeting he (Mr Meacock) would have given an indication as to what he would write. Mr Meacock believes that, as the policy limits were substantial, he would have offered to write either a small line on the full limit or (if the prospective reinsured preferred) he would have agreed (as he ultimately did) to write a larger line on a first loss basis subject to being provided with an attractive excess of loss reinsurance. It is not apparent from the cover note that the excess of loss reinsurer was Syndicate 164 and Mr Meacock stated that after such a long gap he was unable to say whether or not he knew this. He further stated that had he known that Syndicate 164 was providing the reinsurance, that fact would have given him added confidence to write the risk as those managing Syndicate 164 would have known the future prognosis for Syndicate 290 better than anyone else. Mr Meacock informed us that he foresaw the risk of a loss to him occurring during 1989 or 1990 but that he considered the prospects of Syndicate 290's payout exceeding US $9,000,000 prior to that date as being remote. He further considered as at 31st December 1990 that settlements would be such that it would be more attractive to commute the policy under Article III for US $6,000,000 effectively leaving this reinsurance in profit.

J2.5 It is our interpretation of the Meacock reinsurance of Pinnacle (as amended) that if claims were made on Pinnacle by Syndicate 290 before 31st December 1990, Syndicate 727 would reimburse Pinnacle in full. After 31st December 1990, Syndicate 727 would fund claims settlements made by Pinnacle ahead of the anticipated payment schedule and would retain all losses in excess of $6m up to the policy limit of $8,150,000.

J2.6 The reinsurance of Syndicate 727 by Syndicate 164 was as follows:

"INTEREST:	In respect of all business allocated to the reinsured's business class B9011.
POLICY LIMITS:	This policy to pay in excess of an ultimate nett settlement by the reinsured of

US$900,000 any one loss and the aggregate up to a further US$7,250,000 in all. However, at 30th December 1990 the excess above shall be reduced to US$100,000".

J2.7 The effect of this was that in the event of a claim on Meacock before 31st December 1990, Syndicate 164 would only pay when the claims on Meacock exceeded $900,000. In the event of a claim after 31st December 1990, Meacock would pay only the first $100,000 and would be fully indemnified by Syndicate 164 for losses in excess of that figure.

J2.8 The premium paid to Meacock by Pinnacle was $600,000 and by Meacock to Syndicate 164 was $200,000, both amounts net of brokerage. Meacock's exposure was for the first $900,000 of any claims paid prior to 31st December 1990 or for the first $100,000 thereafter for a premium of $400,000. Syndicate 164, for a premium of $200,000, was at risk for a total of $1,250,000 prior to 31st December 1990 or $2,050,000 thereafter plus the cost of funding any claims made ahead of the anticipated payment schedule up to $6m. Mr Meacock was very surprised that Syndicate 164 had spent $1,393,000 to protect itself against a risk for which it had itself received a premium of only $200,000.

J2.9 Mr Robertson has confirmed to us that from the date on which its reinsurance of Meacock took effect, Syndicate 164 carried a claims reserve of $2m.

J2.10 To ameliorate its loss on the Meacock reinsurance Syndicate 164 subsequently purchased a further time and distance policy from Pinnacle (Ref: 87DP00111). From June 1987 the policy was renumbered (Ref: 875478). Its terms were as follows:

"INTEREST: All business allocated to the Reinsured's reference aa957 and aa566.

LIMITS: This policy to pay up to US$2,000,000 in the aggregate of nett retained paid and incurred losses on business allocated to the Reinsured's reference aa957 and aa566".

J2.11 We have seen correspondence between GSW and Pinnacle confirming that the intention of this policy was to provide cover solely in respect of Syndicate 164's reinsurance of Meacock. Initially, Policy 875478 did not provide protection to match precisely the liability to Meacock, since the protection in question related to losses paid after 1st January 1987 and the collections were limited to up to $1m at 15th

May 1997 and the balance up to $2m collectable at 15th May 1998. The premium paid by Syndicate 164 was $955,000. Effective from 26th June 1987, Policy 875478 was varied for an additional premium of $438,000 and possible recoveries from Pinnacle were brought forward to 15th November 1993.

J2.12 It appears that Syndicate 290 did not intend to collect on Policy 84MX01776 in advance of what it and all parties concerned considered to be the anticipated payment schedule of Pinnacle.

J2.13 On 11th July 1990, Mr Robertson wrote to Heaths requesting them to advise reinsurers that settlements for the period January 1987 to December 1989 were $6,704,197. He wrote again on 26th March 1991 advising of settlements under Policy 875478 of $6,609,716 during 1990 and wrote further that "there will be a recovery of $2,000,000 due on 5th May 1992". The total settlements were therefore $13,313,913 which entitled Syndicate 290 to claim $3,313,913 rather than the $2,000,000 requested.

J2.14 If $3,313,913 had been claimed, Pinnacle would have been required to pay in full, but would then have reclaimed $1,313,913 from Syndicate 727, which in turn would have claimed $1,213,913 from Syndicate 164.

J2.15 In November 1992, upon the instructions of GWRO, a claim was lodged on behalf of Syndicate 290 for a total loss of $5,150,000 (being the balance of the outstanding indemnity). Pinnacle agreed settlement in full. Inevitably, consequential claims were made on the Meacock and Syndicate 164 reinsurance policies. Syndicate 164 paid an indemnity claim of $2,050,000 and was requested to meet the funding costs for the $3m claim under the timing risk provision. At the same time, GWRO decided to commute the $2m time and distance policy (875478) in order to limit the net outflow of funds from Syndicate 164.

J2.16 We are currently calculating the financial impact of the deferral of claims by Syndicate 290 in prior years.

J2.17 In view of the nature of the policy provided by Pinnacle, Syndicate 290 did not need to give special consideration to cash flow issues. The reinsurance provided (indirectly) by Syndicate 164 enabled Syndicate 290 to take full credit for the Pinnacle policy and facilitated the enhancement of Syndicate 290's results.

J2.18 Without the benefit of time and distance reinsurance, Syndicate 290 would have shown a loss of approximately 20% of capacity for the 1981 year of account; after crediting the net benefit of the time and distance policy the syndicate showed a profit of 38% of capacity.

J2.19 We have discussed the question of the Syndicate 164 reinsurance with Mr Judd (the active underwriter of Syndicate 164 from 1980), with Mr Robertson and with Mr Walker.

J.2.20 Mr Walker confirmed that his signature appeared in the syndicate Contracts Book in respect of this reinsurance but he said that Mr Judd would have known about the reinsurance because it would have been processed through the system. Mr Walker could not recall the rating of the risk, nor why Syndicate 727 was used as an intermediary.

J2.21 Mr Judd told us that Mr Walker had taken the decision that Syndicate 164 would write the reinsurance of Meacock. Mr Judd was unable to throw any light on the basis on which the premium was calculated.

J2.22 Mr Robertson stated that his involvement commenced with the processing of the documentation for the amendment (see paragraph J2.11 above). It was this work, he said, which led him to speak to Mr Judd "about the purchase of a T&D for 164 to protect the back end of the chain".

J3. Syndicate 295

J3.1 In May 1982, at the time of closing the 1979 account, Syndicate 295 purchased two time and distance policies from First State Insurance Company covering the 1979 and prior years of account for a total indemnity of $9m at a premium of $4,278,410 (see paragraph G4.4).

J3.2 At the time these policies were purchased, there was discussion and correspondence with Lloyd's concerning timing risk reinsurance. In particular, there is a letter on file to Mr Randall (then Manager of the Underwriting Agents and Audit Department of Lloyd's) confirming a Lloyd's requirement that other Gooda Walker syndicates should not participate in the timing risk reinsurances unless there was a substantial (retained) lead line on the timing risk policy from an unrelated reinsurer. Syndicate 295 appears to have complied with this Lloyd's requirement in relation to the First State policies, although Syndicate 290 wrote a substantial following line.

J3.3 A further time and distance policy (Ref: 83MX01590) was purchased from Pinnacle on 14th May 1983 to protect the 1980 and prior years of account. It provided an indemnity of $16m excess of $14.7m for a premium of $6,075,000. There were no timing restrictions on this policy, although it specified that LOCs were to be issued by Citibank with expiry dates as follows:

$1m expiring	31/12/86
$2m expiring	31/12/88
$6m expiring	31/12/92
$7m expiring	31/12/93

J3.4 Thus, the combined protection provided by Pinnacle and First State was $25m.

J3.5 Our investigations have revealed the following (see paragraph G4.11):

(i) the existence of a further "contingency" policy written by Pinnacle; and

(ii) retrocessions of Pinnacle written by Syndicates 290 (60%) and 164 (40%) of Pinnacle providing an indemnity of $5m excess of $11m together with a timing risk reinsurance for the $11m retained by Pinnacle.

J3.6 The contingency reinsurance (Ref: 83MX01598) provided as follows:

"INSURING CLAUSE

This Agreement is to pay the difference between US$11,000,000 and the total of all claims recovered under Policy No. P83079 if the total of such claims recovered is less than US$11,000,000, but only to pay in the event of the Reinsurer's liability thereunder being commuted as at 28th February 1993.

ARTICLE II
EXPERIENCE REFUND

If claim recoveries under Agreement No. P83079 are less than the total cumulative settlement as per the following schedule:-

At 31st December 1986	US$1,000,000
At 31st August 1988	US$3,000,000
At 15th March 1992	US$9,000,000

The unrecovered balance will earn an interest credit on a daily basis at prevailing Call Account Rate at Citibank, London, until such balance is either recovered or until the next schedule date or until 28th February 1993 whichever occurs earlier, which will be paid to the Reassured as an experience refund at date so determined ...

PREMIUM CLAUSE

The premium payable for this Agreement shall be US$50,000.00 in full payable on 9th May 1983."

J3.7 The timing risk reinsurance written by Syndicates 290 and 164 provided as follows:

"PREAMBLE

Whereas the Reassured are desirous of reinsuring as defined below all losses of whatsoever nature which may accrue under business allocated to the Reassured's classification number P83079.

Now therefore it is agreed as follows:-

ARTICLE I
INSURING CLAUSE

This Agreement is to pay in the event that loss settlement shall be required to be paid by the Reassured in advance of the following schedule of cumulative paid loss ratios agreed between the Reassured and Reinsurers, such loss ratios being defined as loss settlement as a proportion of gross net premium income (allowing only for deduction of brokerage and acquisition costs).

31st December 1986..................16.67%
31st August 1988....................50.00%
15th March 1992....................150.00%
28th February 1993.................183.34%

Subject to a maximum aggregate recovery under this policy of US$11,000,000.

ARTICLE II
SUBROGATION CLAUSE

Full subrogation rights granted to Reinsurers hereon as defined hereunder:-

In the event that Reinsurers hereon shall be required to contribute to any loss under policies as defined above then at the next scheduled date as per schedule above Reinsurers shall be entitled to recover up to specified amounts but not exceeding the amount of original claim settled by Reinsurers."

The premium for this policy was $210,000.

J3.8 The indemnity reinsurance policy (Ref: 83ME01584) written by Syndicates 290 and 164 provided as follows:

> "PREAMBLE
>
> Whereas the Reassured are desirous of reinsuring as defined below all losses of whatsoever nature which may accrue under business allocated to the Reassured's risk portfolio P83079
>
> ARTICLE
> INSURING CLAUSE
>
> This Agreement is to pay up to US$5,000,000 Ultimate Net Loss in the aggregate in excess of an ultimate net settlement by the Reassured of US$11,000,000 Ultimate Net Loss in the aggregate ...
>
> ARTICLE IV
> SIMULTANEOUS SETTLEMENT CLAUSE
>
> In the event the Reassured shall be called on to pay any claim under their original contract or contracts of reinsurance covered hereunder then Reinsurers hereon shall pay any amounts due under the terms of this contract at the same date as the Reassured shall make their payment and follow the settlements of the Reassured, provided such settlements are within the terms and conditions of the original policies and of this Agreement ...
>
> ARTICLE VII
> PREMIUM CLAUSE
>
> The premium payable for this reinsurance shall be a minimum and deposit premium of US $100,000 adjustable at 1.50% of G.N.P.I. allocated to the Reassured account as above."

J3.9 We have discussed these reinsurances with Mr Robertson, Mr Judd, Mr Walker and Mr Ryan.

J3.10 Mr Ryan told us that he was unaware of the retrocessions of liability from Pinnacle to Syndicates 290 and 164. He stressed that Mr Walker (who was the active underwriter of Syndicate 295 until 1986) negotiated the policy with Pinnacle. Mr Walker, on the other hand, told us that Mr Ryan was in effective control of the syndicate from 1981 or 1982. Heaths in its response to the draft Report stated that:

"Mr Goodier's understanding accords with Mr Walker's in this respect and he is therefore surprised at the comment in the first sentence of this paragraph".

J3.11 Mr Judd said that he had only vague recollections of the reinsurances by Syndicates 164 and 290 but he was able to show us entries in the Contracts Book of Syndicate 164 which indicated that the Syndicate 164 reinsurance had been a "promised line" agreed by Mr Walker. Mr Judd recalled that Mr Walker told him that Syndicate 164 was being paid a generous premium rate for its exposure and that, as regards the reinsurance of $5m excess of $11m, it was remote in the extreme that there would ever be a claim under the policy. On that basis he had confirmed Mr Walker's line. Mr Judd also confirmed that he played no part in calculating or agreeing additional premiums on these reinsurances when they were amended in due course.

J3.12 Mr Robertson told us that he did not have anything to do with the placement nor the administration of the documents. He added that he did not work in the office at this time, being employed full-time as the claims examiner for Syndicates 164 and 296 sited in the Lloyd's building.

J3.13 Mr Walker stated by way of background that the Syndicate Auditors had disallowed substantial recoveries on the RITC on the ground of weak security as a consequence of new Lloyd's guidelines. Mr Walker nevertheless considered that the security was good and that this was a good risk for Syndicates 290 and 164 to write. Mr Walker does not recall how he rated the risk at the time nor for any of the subsequent variations to the policies to reflect the changes to the Syndicate 295 policy.

J3.14 The Lloyd's requirement for an independent lead line on timing risk reinsurance seems to have been overlooked. Furthermore, the correspondence with Lloyd's in May 1981 (see Appendix 13) also appears to have been forgotten. The Syndicate Auditors rightly point out that this letter was written in relation to another policy.

J3.15 In June 1986, the reinsurance provided by Syndicates 164 and 290 was increased to $5.5m (from $5m) for an additional premium of $85,000. At the same time, there was an endorsement to the timing risk reinsurance written by Syndicates 290 and 164 adjusting the basis for calculating the loss ratio under that policy (for which an additional premium of $105,000 was paid).

J3.16 The funding for these payments was provided by the additional premium of $225,000 paid to Pinnacle by Syndicate 295 (see paragraph G4.21). The balance of $35,000 was retained by Pinnacle.

J3.17 In December 1986, Syndicate 295 collected $1m from Pinnacle. This was in accordance with the anticipated recovery date and there was no impact on the timing risk reinsurances.

J3.18 In June 1987, the First State policy was commuted and the net proceeds were paid to Pinnacle as an additional premium pursuant to a reorganisation of the Pinnacle policy (Ref: 83MX01590) with consequential changes to the reinsurances written by Syndicates 290 and 164. At this time, there was a major restructuring of the securities lodged by Pinnacle with Citibank in support of the LOCs issued by Citibank to Syndicate 295 (to guarantee the future recoveries). The benefit obtained from this restructuring enabled the reinsurances with Syndicate 290 and 164 to be varied as follows:

(a) the indemnity provided by Syndicates 290 and 164 was reduced to $4m from $5.5m (albeit that Syndicates 290 and 164 received an additional premium of $30,000 for the amendment) and the excess point was raised to $20.5m to reflect the incorporation of coverage previously provided by the (now-commuted) First State policies;

(b) the anticipated recovery dates on the timing risk policy were rescheduled inter alia to incorporate the coverage previously provided by First State. An additional premium of $30,000 was also paid for this amendment.

The timing risk reinsurance in respect of the original policies with First State thus lapsed.

J3.19 In August 1988, in response to a cash shortage in Syndicate 295, an OCA of $2.9m was paid by Pinnacle to Syndicate 295. This was made possible by a deferral of the anticipated recovery dates and another restructuring of securities lodged with Citibank by Pinnacle. Again, the indemnity provided by Syndicates 164 and 290 was reduced (from $4m to $3m) with an additional premium of $50,000 being paid and the timing risk policy was again amended to reflect the increased risk of the deferral, for an additional premium of $50,000.

J3.20 From a letter to Pinnacle from Heaths in March 1989, it appears that Mr Ryan had been advised by the Syndicate Auditors that Syndicate 295 was "over-reserved/carrying too much R/I to the tune of $5m-$6m and as such ... requested ... alteration to the policy to reduce the indemnity limit". In May 1989, a further recovery of $1.87m was made by Syndicate 295. This comprised an OCA of $220,000 and a claim of $1,650,000. At this time, there was a further restructuring of Pinnacle's securities lodged with Citibank. The indemnity provided by Pinnacle was reduced from $24.5m to $18m. The consequential changes to the Syndicate 290 and 164 reinsurance policies were:

(a) the indemnity was varied to $3m excess of $15m (previously $3m excess of $21.5m). An additional premium of $15,000 was paid;

(b) there was a rescheduling of the timing risk policy (to reflect the extended maturity dates) for an additional premium of $15,000.

The total recovery of $1.78m was accrued in the syndicate accounts at 31/12/88 and the impact on the closing of the 1986 account is shown in paragraph G4.35 above.

J3.21 In early 1990, Pinnacle was advised by Heaths that Syndicate 295 had a "very serious cash shortage problem" and a further claim for $2,786,346 was made on Pinnacle. To make the payment, Pinnacle disposed of securities (which had been lodged with Citibank) with the shortest maturity dates and having a nominal value of $2,786,346. A shortfall of $282,346 (being the difference between the market value and the nominal value) was collected from Syndicates 290 and 164 on the timing risk reinsurance. (In this context, "nominal value" means the anticipated proceeds to be realised from a disposal of the securities in question at their normal maturity dates). The LOCs issued to Syndicate 295 by Citibank were reduced on 24th April 1990 by the total amount of the claim ($2,786,346) paid to Syndicate 295 and the indemnity provided by the Pinnacle time and distance policy was also reduced by the same amount.

J3.22 In April 1991, a further claim was made by Syndicate 295. The procedure set out in paragraph J3.20 was again followed in respect of a total claim for $1,739,794 of which the sum of $298,794 was provided by Syndicates 290 and 164.

J3.23 Our inspection of the Pinnacle files revealed a meticulous approach on Pinnacle's part to ensure that (with one exception: see paragraph J3.26 below) there were corresponding changes to the Syndicate 290/164 reinsurance policies and also to the LOC facility issued by Citibank to guarantee Syndicate 295's future drawings on the Pinnacle time and distance policy. Citibank was made aware of each variation to the reinsurance policies as it had the benefit of an assignment by Pinnacle of the reinsurances written by Syndicates 290 and 164. Citibank's agreement was required, in accordance with its normal practice, whenever the limits and/or timetables were revised, including at the time of the policy commutation in June 1991.

J3.24 We have not received any satisfactory explanation of the basis of calculating the premiums for the reinsurance policies written by Syndicates 290 and 164. The basis for calculating brokerage also appears to have been somewhat arbitrary.

J3.25 As will be seen from Section G4 above, various changes were made to the excess point under the Pinnacle time and distance policy and also to the dates from which claims accrued against that excess. We have been unable to establish whether these amendments benefited Syndicates 290 and 164.

J3.26 With effect from 1st January 1989, the Pinnacle reinsurance policy was amended to provide for coverage in respect of paid and incurred claims, although it appears that claims made by Syndicate 295 continued to be calculated by reference to paid claims only. GWRO has made a claim on behalf of Syndicate 295 in the sum of $13,385,042 and we will be calculating the financial impact of Syndicate 295's failure to make timely claims in accordance with the policy wording. Pinnacle have responded with consequential claims on the indemnity and timing risk reinsurances written by Syndicates 290 and 164, asserting that they will not pay the claim to Syndicate 295 without a simultaneous settlement from Syndicates 290 and 164. A further complication arises because the reinsurances written by Syndicates 290 and 164 appear to relate to paid claims only and therefore do not match the "paid and incurred basis" for making claims under the Syndicate 295 policy with Pinnacle.

J4. Syndicate 164

J4.1 As mentioned in paragraph G2.10 above, Syndicate 164 purchased from Pinnacle a time and distance policy with an indemnity of $7,250,000 protecting the 1983 and prior years.

J4.2 We have discussed this policy with Mr Judd, who stressed that he was not an expert in the area of time and distance reinsurance. He explained that Mr Walker had written a reinsurance of Outhwaite on behalf of Syndicates 290 and 164 and that a substantial loss had developed in respect of this reinsurance. As a result, Mr Walker had agreed a cap on the liability with Outhwaite. Nonetheless, Syndicate 164 had still incurred a substantial loss and Mr Walker had advised that Syndicate 164 should purchase the Pinnacle time and distance policy to ameliorate the effect. In response to our draft Report, Mr Robertson stated that Mr Judd was mistaken and that the reinsurance of Outhwaite was written into the 1983 year of account. Mr Robertson has also suggested that "it was deterioration on the 1982 aviation XL programme written by Stan Andrews which had caused the hiccup".

J4.3 On 28th April 1986, Syndicate 164 purchased a timing risk reinsurance (see paragraph G2.11 above). The coverage provided was:

> "To indemnify the reinsured for all charges made against them on Policy No T86G123 in the event of their settling in excess of $4,428,275 prior to 31st December 1991. Limit hereon $732,307 in the aggregate".

J4.4 Mr Robertson told us that the timing risk reinsurance was for one year only and was not extended or renewed. Mr Judd, who said that he did not remember the timing risk policy, nevertheless agreed with our interpretation of the policy, which was that it contained no indication that it was for one year only, that there would have been little commercial benefit and that there was therefore "no point having this policy if it was for only one year". GWRO have in the circumstances instructed CRO to investigate the possibility of a collection under this timing risk reinsurance.

J4.5 We are in the process of establishing with Outhwaite and the broker their interpretation of this policy.

J5. <u>Syndicate 514</u>

J5.1 As mentioned above, Syndicate 514 was very small (1984 capacity £440,000).

J5.2 A time and distance policy was purchased in April 1987 protecting the 1984 and prior years for a total indemnity of £155,000. The premium was £110,000 plus £1,679 for the LOC. Claims were recoverable from Pinnacle as follows:

31/12/91	up to	£35,000	
31/12/92	up to	£95,000	cumulative
31/12/93	up to	£155,000	cumulative

J5.3 Syndicate 290 agreed to write a timing risk reinsurance for Syndicate 514 for a premium of £7,000. To the extent that the Syndicate 290 timing risk reinsurance was called upon to meet claims, it was entitled to reimbursement from the proceeds of the Pinnacle time and distance policy (that is, up to £35,000 on 31st December 1991 etc). Mr Walker told us that he had no recollection of this risk.

J5.4 The following claims have been made on the Syndicate 290 timing risk policy:

	£
21/12/87	32,381.29
06/06/88	32,616.17
09/12/88	7,363.04
14/08/89	1,269.79
22/11/89	20,874.93
16/09/90	9,038.35
12/06/91	12,033.22
	£115,576.99

J5.5 The timing risk reinsurance was agreed on 27th April 1987. By 30th June 1987, Syndicate 514's paid losses were £53,381.29 and therefore (after deducting the excess point of £21,000) £32,381.29 was payable by Syndicate 290 on the timing risk.

J5.6 As can be seen from the claims listed above, within just over one year of receiving £7,000 in premium, Syndicate 290 had paid £64,997.46 in claims with no reimbursement due from the Pinnacle policy until 31st December 1991. GWRO has instructed CRO to confirm that all amounts recoverable by Syndicate 290 have been received.

K. ABSENCE OF CASH FLOW FORECASTS

K1. We have explained the importance of preparing cash flow forecasts in order to demonstrate that a syndicate will be able to meet claims as and when they fall due.

K2. We would have expected GWL to have prepared regular (at least annual) cash flow forecasts to confirm that assumptions regarding claims outflow remained valid.

K3. We have discussed this general topic with Mr Robertson, Mr Ryan, Mr Judd, Mr Walker, Mr Pilch and the Syndicate Auditors. We have not spoken to Mr Andrews.

K4. All of those to whom we spoke agreed that the scheduling of recoveries under time and distance policies should be arranged so that the syndicate is able to meet claims as they fall due for payment.

K5. Mr Judd, Mr Walker and Mr Ryan viewed Mr Robertson as the time and distance expert within the managing agency and said that he would have been responsible for producing any cash flow analyses.

K6. In a letter from Mr Robertson in response to our draft Report, he told us that he was:

> "at no time ... involved in the policies of 295, 298, 299, 387 or 514 nor was he expected to be responsible for them. Indeed he has no recollection of ever being asked for advice by these syndicates. As for 164, Mr Robertson passed over the mantle of looking after the 164 policies shortly after the completion of the audit in 1987 by agreement between Mr Judd and Mr Walker. Thereafter Mr Judd was solely responsible for his Time and Distance policies ... Mr Robertson helped with T86G123, T86G135 and 87DP00111 which as you will observe, was for some 15 months ..."

In relation to the need to forecast cash needs, Mr Robertson added that:

> "The fact that any given syndicate had to purchase a profit and pay out profit commission had no bearing on the amount of cash in the bank. Yes it would reduced [sic] the cash balance, but not exhaust it. Don't forget that you bring forward substantial old year reserves in the way of cash, and that you have open year cash as well".

K7. Mr Pilch stated that in an ideal world there was a need for cash flow forecasts but he had found it extremely difficult to persuade underwriters to produce them. Mr Pilch also stated that there had historically always been a lot of cash in the Gooda Walker syndicates and consequently there had been no need to make cash flow forecasts. Indeed, he added that it was only when "cash goes out that you have to make a study of it". In his response to the draft Report, Mr Pilch stated:

> "... for XL syndicates I looked towards the balance on the two open years of account as a primary source of cash. When syndicates were expanding strongly there was not a major funding problem. The problems arose when the premium income started to level off or fall. Obviously other factors have a bearing on the open year balances such as claims expenses, including the speeding up of payments and R/I costs".

K8. The statements in paragraphs K6 and K7 above do not address the need to review the adequacy of future cash flows within the closing year of account.

K9. Mr Walker stated that cash flow was taken into account before time and distance policies were purchased but that to the best of his knowledge formal cash flow forecasts were not prepared. He went on to say that Syndicate 290 had never been short of cash and as maturity dates of time and distance recoveries were kept very short he had believed the cash position to be secure. He also claimed that GWL avoided putting money out for more than 10 years but we note elsewhere in this Report that Syndicate 290's largest policy (875477) put over half of the indemnity of $40 million out 11 years. In response to our draft Report, Mr Walker said that:

> "Cash flow at all times was taken into account you may not have discovered any formalized documents, the group had the knowledge of how to purchase T&D policies, if we had not why did we limit the amount purchased, and timing risk also we could have bought many more".

K10. The Syndicate Auditors made the following comments in correspondence with us:

> (a) "When a time and distance policy was purchased the future cash flow was discussed with the Managing Agent and we can confirm that credit would not have been taken for cash flow generated by subsequent years.
>
> We are aware that the Managing Agent prepared a cash flow forecast in connection with the sterling borrowing from the National Westminster Bank in the early part of

1991. Other than that instance we are not aware of any cash flow projections being prepared" (18th February 1992).

(b) "As far as we are aware, cash flow projections were not prepared. Whilst detailed cash flow calculations may be appropriate when considering policies which carry restrictions on the timing of the payment of recoveries, there was no such restriction in relation to this addendum." (30th March 1992).

(c) "As far as cash flow projections are concerned, as I have said before, in the absence of a timing risk, cash flows would not necessarily have been appropriate. As far as I am aware, Gooda Walker used settlement triangulations as the basis for estimating the incidence of future settlements." (27th April 1992).

(d) "1. So far as I am aware, no schedules were prepared in the form of formal cash flow projections.

2. Projections of future settlements were examined and considered on a judgemental basis principally by reference to the settlement triangulations.

3. The Syndicate 290 working paper of 21 April 1986 appears to me to evidence that an examination had been made of the syndicate's settlement pattern and a judgement made accordingly.

4. Clearly, I cannot confirm that this "is all that exists". I can, on the other hand, confirm that this is the only working paper prepared by Syndicate 290 that we have located within out [sic] syndicate audit files." (30th April 1992)

K11. In answer to a letter from us dated 3rd September 1992 enclosing a general questionnaire on the subject of time and distance reinsurance, including specific questions regarding cash flow forecasts, the Syndicate Auditors provided the following information on 21st September 1992:

"As far as I am aware, projections of anticipated future settlements were prepared before T & D's were purchased. I have no information in relation to T & D's acquired and maturing within the 36 month period.

I understand that Hugh Robertson would have prepared the projections.

Future claim projections were considered in the course of establishing the RITC or EFL at each accounting date.

...

So far as I am aware, future settlement projections would inevitably have taken note of the levels of RITC's and EFL's.

As far as I am aware, T & D payment schedules were within the anticipated claims settlement projections.

The relevant syndicates underwrote excess of loss business; losses designated as catastrophe losses by Lloyd's formed part of the ordinary business of the syndicates and were reflected in the settlement projections as indicated ... above. The more recent extraordinary catastrophes, beginning with Piper Alpha, were reviewed separately and, where syndicate borrowings were anticipated to fund settlements pending the receipt of cash calls or Names losses, an appropriate financing provision was included."

In a letter dated 22nd March 1993, the Syndicate Auditors responded to a number of specific comments in our draft Report regarding the absence of cash flow forecasts by stating that "settlement charts were available". In further correspondence with the Syndicate Auditors, they confirmed that the papers set out in Appendix 15 ("Syndicate 290 Analysis of Data") are examples of such settlement charts. These papers contain no estimates of future claims outflows but merely tabulate the historic development of paid and outstanding claims by year of account.

K12. Mr Robertson told us that in the case of Syndicate 290 estimates of future claims outflows were prepared when time and distance policies were purchased. These estimates were based, he said, on an extrapolation of the historical settlements expressed as a percentage of premium income. We questioned him as to the preparation of revised forecasts at the time the RITC was computed each year and he responded that he reviewed computer print-outs prepared by the Syndicate Auditors which showed the actual claims outflow during the calendar year just ended from which he was able to confirm that there had been no acceleration beyond the predicted rate.

K13. We asked Mr Robertson what allowance had been made in the estimates regarding the settlement of known outstanding claims and IBNR. He responded by saying that forecasts were not prepared in the accounting sense; he was merely concerned to confirm that actual claims outflows to date were in accordance with estimates. We pressed him to indicate whether any additional loadings had been applied in respect of asbestos - related losses and pollution claims. Mr Robertson confirmed that no adjustment had been made in the forecasts to reflect changes from the historical settlement pattern. We note the following statement which appeared in Note 1(a)(iii) to the Accounts for the year ended 31/12/90 of Syndicate 290:

> "the history of past claims settlements as used as a basis for the projection of future settlements may not anticipate the future development of such latent losses."

(A similar Note appeared in the Accounts for earlier years).

K14. The "cash flow" documents seen by us (see Appendix 6) (which appear to have been prepared at the time of purchasing additional time and distance reinsurances in April 1986 and April 1988) were rudimentary and took no account of the developing problems of asbestos related claims, nor of possible outflows in respect of environmental pollution claims. We have seen no evidence of the production of updated forecasts in subsequent years. We have therefore been unable to verify evidence given by Mr Walker and Mr Robertson to the Loss Review Committee - see page 318 of the Loss Review Committee Report which stated that:

> "1.4.2 The existence of cash flows to support the programme of policies is still under investigation by RISL. Both Derek Walker and Hugh Robertson were categoric in their evidence to the Committee that these policies were supported by cash flow forecasts."

K15. We have been unable to reconstruct cash flow forecasts for years prior to 1990 because the range of assumptions that would have been needed would have been open to severe criticism - including but not limited to the criticism that we were applying the benefit of hindsight. With the assistance of E&Y, we have prepared some cash flow projections for Syndicate 290 as at 31st December 1990, which are reproduced in Appendix 5. In preparing these cash flow projections we faced a further difficulty in that the estimate of future claims made by GWL at 31st December 1990 in respect of the 1988 and prior years was some £39m less than the figure estimated by GWRO one year later. Since the estimate of future claims was a key starting point for the cash flow forecast, this deterioration (or under-reserving) on the part of GWL created particular difficulties.

K16. Basis C of Appendix 5 (which in our view is the proper test of future cash flows) shows the likely outflow of claims based on the reserves for the 1988 account established by GWRO at 31st December 1991. It can be seen that the 1988 year is projected to go into overdraft very rapidly and, even ignoring interest payable on the overdrawn balance, it is demonstrated that it was inappropriate to take full credit for time and distance recoveries far out into the future.

K17. In anticipation of the criticism that we had used the benefit of hindsight in preparing Basis C, we also recast the figures using GWL's own (understated) reserves as at 31st December 1990. From Basis A in Appendix 5, it can be seen that, whilst the overdrawn balances are much smaller, the 1988 account moves into a small deficit at the end of 1992, with a substantial increase in the deficit in 1993 which continues until the majority of the recoveries are made on the time and distance policies.

K18. Basis B of Appendix 5 demonstrates that if GWL had assumed the increased level of reserves at 31/12/90 (that is, with the additional £39m) then there would have been no overdraft. It is, however, important to note that this increased level of reserves would have produced a substantial loss to Syndicate 290's 1988 account at 31st December 1990 (whereas a profit was paid to Names) and Basis B therefore assumes that a large cash call for the hypothetical loss on the 1988 account had been made and collected in 1991.

K19. The Syndicate Auditors in their response to our draft Report made a detailed submission which we reproduce below. Their comments in relation to the cash flow forecasts produced by E&Y are as follows:

> "Turning to the cash flows prepared by Ernst & Young, we have not, of course, had the opportunity of reviewing the detailed workings underlying Bases A, B, and C. We are, therefore, unable to comment on the individual figures contained in the cash flow forecasts.
>
> Subject to those individual figures, we would comment in respect of Basis A that GWL had been persistently slow in obtaining reinsurance recoveries, a matter upon which we had commented on a number of occasions. A reduction in the timescale of collections to one more consistent with market practice would have substantially if not wholly eliminated the negative cash balances indicated.
>
> Further, if the cash flows are supposed to reflect the position that pertained at 31/12/90, when the syndicate was continuing, the delaying effect on recoveries caused by the syndicate being put into run-off should also be eliminated. This would further improve the cash flow.

We suggest that Ernst & Young should review the period over which reinsurance recovery accruals are shown to be received and re-calculate the cash flow forecast accordingly.

In relation to Basis B, again we have no information upon which to comment on the detailed figures or timescales of the anticipated outflows. (Please see our comments on accruals above). However, it is notable that substantial closing balances are foreseen in respect of all years.

Turning to Basis C, we note that in your view it is the proper test of future cash flows. Again, we have not had access to the basis of the calculations but we can see that it may reflect the outflows of claims based on the GWRO assessment of the 1988 Account as prepared in the light of the information available in the summer of 1992.

The conclusion drawn, however, in the last sentence of K16 is wholly misleading and unsupportable.

Basis C suggests that the additional £39m of liabilities should have been recognised as at 31/12/90 for the cash outflows but that they would not have been reflected in the accounts and called as a loss on the 1988 Account as reflected in Basis B. Even with the benefit of hindsight, only half the entries have been included. Unless we misread the paragraph, Basis C is manifestly flawed.

Basis A, or Basis B may be appropriate (subject in particular to the timing of accruals) depending on whether, in the light of the circumstances known at the time of finalising the December 1990 Accounts, the additional provision felt necessary by GWRO in the summer of 1992 was appropriate for inclusion within the 1990 Accounts.

The comment on Basis A ignores the opportunity and intention to accelerate the collection for reinsurance recoveries".

K20. Having given careful consideration to the comments set out above, we merely reiterate the statements made in paragraphs K15 to K18 which deal openly with the issue of possible criticism regarding the use of "hindsight" and spell out the complications which have arisen because of the deterioration of £39m during 1991. It is perhaps more significant to stress that it is the very absence of cash flow forecasts which created the need to reconstruct such information. Had the exercise been undertaken by GWL our efforts would have been limited to a simple review of their documents.

K21. We have discussed Sections K15 to K20 with E&Y, who concur with our views.

L. **CURRENCY SWITCHES**

L1. During the course of our investigations, we identified two time and distance policies which appear to have resulted in the conversion of US dollar premiums into sterling recoveries by Syndicate 290. The purpose of these "currency switches" may have been to assist with funding claims arising from the Cat 87J loss (the 1987 UK windstorm). The manner in which these policies were processed through the LPSO central accounting system (see further below) may have been in breach of LATF requirements. One of the policies, moreover, resulted in a loss to Syndicate 290 as a result of exchange rate fluctuations and the brokerage charges and margins earned by Heaths and Pinnacle respectively.

L2. The transactions are presented in chart form in Appendix 10. We set out below a further explanation of the relevant circumstances.

Policy DA6159R00

L3. The initial quotes for this policy were sought in early 1989. On 1st March 1989, Pinnacle were asked as follows by fax:

> "Further to our conversation this afternoon could you please provide an indicative quotation on the following basis.
>
> DJW to pay premium of $6,990,000 plus £10,000
>
> for STG cover limited @ 31/3/94
>
> I have a meeting with Derek Walker tomorrow. Hugh Robertson is v. keen to purchase this additional cover i.r.o. his 1987 u/w year".

L4. A quote was made and accepted. The cover provided was as follows:

"PERIOD	In respect of losses settled by the Reassured between 1st July 1987, and 1st April 1988, (both days inclusive).
TYPE	Aggregate Excess Reinsurance.
POLICY LIMITS	This policy to pay up to £6,425,000 in the aggregate in excess of an ultimate nett loss to the Reassured of £57,500,000".

The wording of this cover was highly unusual because, far from providing coverage in respect of future losses, the policy gave protection in respect of claims which had already been settled.

L5. The documentation presented to LPSO indicated that the premium was an additional premium in respect of a different policy (Policy DA5551N00/P87024A) which had been purchased in 1987.

L6. Pinnacle had also been requested to treat the new transaction as an extension to the existing 1987 policy. On 2nd March, Pinnacle asked by fax "which Walker deal is being amended". The answer was provided by Heaths in a fax to Pinnacle on 3rd March 1989:

> "Thanks your telex of yesterday - further to your question of which policy this A.P. should attach to - yr Ref: P87024A".

(Ref P87024A was the Pinnacle reference number for policy DA5551N00).

L7. On 10th May 1989, Ms Rook wrote to the LPSO as follows:

> "We write to advise you that on two premium debit notes we have shown incorrect broker debit note numbers and incorrect broker original reference numbers.
>
> The details of the debit notes are as follows:
>
> 1. Signing date & number: 53966 - 5th March, 1989.
>   Syndicate 290 ref : D9921801887A
>   Net R/I Premium : US $6,990,000.00
>
> Please amend both the broker debit reference and original reference to DA6159R00.
>
> 2. Signing date & number: 13928 - 5th March, 1989.
>   Syndicate 290 ref : D9921802887A
>   Net R/I Premium : £10,000
>
> Please amend both the broker debit reference and original reference to DA6159R00.
>
> We also showed incorrect broker credit reference and original reference on a return credit, the details of which are as follows:
>
> Signing date & number: 18912 - 12th March, 1989
> Syndicate 290 ref : D9921802887A
> Net R/I return : £50,000
>
> Please amend both the broker credit reference and original reference to DA6159R00".

L8. It would appear that Pinnacle remained confused by what was happening. On 14th June 1989, Heaths wrote to Mr Bruce Swann of Pinnacle as follows:

> "Bruce,
>
> If you speak to Richard he will explain to you where this "new" contract comes from - we originally booked it under DA5551N00 because Hugh Robertson couldn't for audit purposes at that time create a new file - so we initially called this contract DA5551N00.
>
> Well! to explain the slightly different form of this contract;- Hugh needs this purchase to sit on top of his conventional XL programme & for it not to "stand out" we have kept the terms as similar as possible to the underlying - it is though a time & distance policy & the formal differences are cosmetic.
>
> If you are happy please sign your acceptance in order I may cover note the client".

L9. The securities purchased were added to SFA 71 which had initially been opened in respect of Policy DA5551N00. This was agreed by Heaths as follows:

> "1. I have spoken with Hugh Robertson & he has no objection with maintaining the existing SFA on the basis that the £6,425,000 being identified as a separate contract.
>
> 2. Hugh Robertson requested the 'short period' - this I believe is a function of tying up his whole programme of R/I's".

L10. There was some benefit to Syndicate 290 in using an existing SFA in that the syndicate obtained a return premium of £50,000.

L11. There were also anomalies in the policy wording itself. Although a time and distance policy, the cover was stated to be in respect of losses which, as noted above, had in fact already been settled by Syndicate 290 between 1st July 1987 and 1st April 1988. The excess point appeared to be fixed on an arbitrary basis.

L12. Syndicate 290 paid $85,000 in brokerage and Pinnacle charged a margin of $146,000. The policy was cancelled in October 1989. The request was set out in a fax from Heaths to Pinnacle dated 11th October 1989:

"At present £6,425,000 indemnity @ 31.3.94 i.r.o. 9mos period 1.7.87 to 1.4.88 (Bd1). Hugh Robertson would like to do the following

(i) cancel P89019 & receive a STG R.P.

(ii) utilise the STG R.P. plus a small A.P. to purchase £7,000,000 indemnity @ 31.3.94 i.r.o. his 1986 & prior U/W years.

It is an accounting nicety for him that will give some room to manoeuvre.

Can you please quote overnight".

L13. Policy DA6159R00 was cancelled for a refund of £3,845,000 on 26th October 1989.

L14. On the same day, Policy DA6241R00 was issued providing cover as follows:

"PERIOD:	In respect of losses settled on or after 1st January, 1989 on Policies signed to the Reassured's 1986 and prior underwriting years of account.
POLICY LIMITS:	This policy to pay up to £7,000,000 in the aggregate in excess of an Ultimate Nett Settlement by the Reassured of £5,000,000".

L15. We asked Mr Walker about this policy and suggested that it amounted to a scheme to convert US dollars to £ sterling. Mr Walker said he did remember this policy which had been purchased on the basis of a recommendation from Mr Robertson. He had a general recollection only but seemed to recall that Mr Robertson had reported that they were shortly going to have to meet a large sterling loss in respect of 87J (the UK windstorm of October 1987). The syndicate had "lots of dollars" and it was seen as a good strategy to stabilise the exchange rate. Beyond this he had no recollection. In response to our draft Report, Mr Walker said that:

"In respect of the currency switch I am not aware that we had broken any by-laws".

Policy DA5551NOO

L16. This policy was written in terms of a conventional excess of loss contract but was in fact a time and distance policy:

"SLIP NUMBER DA5551NOO

REINSURED:	D J Walker Esq., & Others, Syndicate No. 290.
PERIOD:	Losses occurring during 12 months at 1st January 1987.
TYPE:	Excess Loss Reinsurance.
INTEREST:	This Reinsurance is to pay all losses on any Interest underwritten by the Reinsured howsoever and wheresoever arising, during the period of this Reinsurance.
LIMITS:	This policy to pay US $50,000 each and every loss and/or Catastrophe and/or Calamity and/or Occurrence and/or Series of Occurrences arising out of one event, in excess of an Ultimate Nett Loss of US $50,000 each and every loss and/or Catastrophe and/or Series of Occurrences arising out of one event.
REINSTATEMENT:	Nine Full Reinstatements without Additional Premium.
CONDITIONS:	Claims Payable clause. No claim collection permitted hereunder prior to 11th May 1990).
PREMIUM:	US $100,000 payable by special settlement on or before 25th September 1987.
BROKERAGE:	US $8,000".

L17. No placing information was sent to the reinsurer as would have been the case with a conventional excess of loss policy. This was perhaps not surprising, as Pinnacle would not have been prepared to quote for a conventional excess of loss policy. Pinnacle merely received a draft slip, the terms of which were as set out above. The premium was not \$100,000 as stated on the draft slip but \$391,000, the syndicate having been credited with the proceeds of a return premium on Policy 84MX01780 (see Appendix 10).

L18. The condition preventing recoveries prior to 11th May 1990 confirmed the time and distance characteristics of the policy. It should be noted that at this stage no SFA was issued but see further below.

L19. On 4th November 1988, Syndicate 290 paid two further additional premiums in respect of Policy DA5551N00, of \$3,098,000 and £100,000 for a sterling indemnity of £2,125,000.

L20. It appears that this amendment had caused some confusion. A fax from Heaths to Pinnacle dated 2nd November 1988 stated as follows:

> "Here is a rough outline of the result of my conversation with Hugh Robertson today.
>
> The intention is to amend the policy (your ref. 87024) something like this:
>
> 'It is hereby noted and agreed that this policy is to indemnify the Reassured in respect of their aggregate net retentions on the following policies to the extent stated.'
>
> A) The Reassured's policy ref. D0004000787A £25,000/\$50,000 xs £25,000/\$50,000 aggregate retention £500,000/\$1,000,000 to indemnify the Reassured up to 100% in respect of their aggregate retention.
>
> B) The Reassured's policy ref. D0004100787A £75,000/\$150,000 xs £50,000/\$100,000 aggregate retention £750,000/\$1,500,000 to indemnify the Reassured up to 100% in respect of their aggregate retention.
>
> C) The Reassured's policy ref. D0004200787A £125,000/\$250,000 xs £125,000/\$250,000 aggregate retention £625,000/\$1,250,000 to indemnify the Reassured up to 100% in respect of the aggregate retention.
>
> D) The Reassured's policy ref. D0004200787A £125,000/\$250,000 xs £250,000/\$500,000 aggregate

retention £750,000/$1,500,000 to indemnify the Reassured up to 66.6% or two total losses only.

PLUS: the other conditional changes that will have to be made.

Therefore, what he is attempting to "tack on" here is £2,375,000 in aggregate retentions with the consideration that he has in existence $500,000 of indemnity presently in force under ref. P87024A, so Hugh feels he has the following:

£2,125,000 New purchase plus $500,000 already in existence.

Therefore, if he is correct in his assumption that the new purchase of £2,125,000 is in addition to the existing $500,000, he has a certain amount of flexibility in respect of currency.

Steve, I'm terribly sorry for the confusion but things really aren't clear at this end, I hope this does something to clarify".

L21. This fax gave the impression that there was a US dollar element to the protection sought by Syndicate 290 in respect of policies listed in A-D of the fax. However, in the actual endorsement to the Policy, the reference to US dollars was removed.

L22. The premium was debited to Syndicate 290 under audit code A3. On 29th November 1988, Heaths wrote to Lloyd's as follows:

"Further to a telephone conversation I had with Mrs Doreen Jenkins, I write in order to request that you make alternations to two of our debit notes. Mr Hugh Robertson of Syndicate 290 has advised me that we have incorrectly shown his Audit Codes on the following two premiums debit notes:

1) Broker ref. DA5551NOO (U/W ref. D9921800887A).
Premium Debit £100,000.00
Lloyd's signing date and number 13903, *06 November 1988.
Audit Code was shown as A3 and should in fact be F.

2) Broker ref. DA5551NOO (U/W ref. D9921900997A).
Premium Debit US $3,098,000.00
Lloyd's signing date and number 53906, *06 November 1988.
Audit Code was shown as A3 and should in fact be F.

I would be most grateful if you could make these amendments to Audit Code and furnish Syndicate 290 with the necessary documentation illustrating the changes".

L23. Code F is designated as short tail property business. We do not understand the significance of this letter.

L24. The time and distance nature of the policy was confirmed by the fact that an SFA was issued, the secured sum being £2,125,000 although the vast proportion of the premium was in US dollars. The policy provided for no claims collections prior to 15th May 1990 with the securities in the SFA maturing at the same time.

L25. The cover was further increased in January 1989 by £250,000 for a premium of £205,000. This sum was recoverable at 31st December 1990 and not 15th May 1990 as in the case of the balance of the policy.

M. COMMUTATION OF TIME AND DISTANCE POLICIES IN 1991

M1. The accumulation of claims in respect of market catastrophes in 1987, 1988, 1989 and 1990, exacerbated by delays in securing reinsurance recoveries, had resulted in a heavy outflow of cash for a number of Gooda Walker syndicates throughout 1990. By early March 1991, the vast majority of syndicate investments had been liquidated, the Gooda Walker syndicates were substantially overdrawn within the LATF and the Board of GWL was under considerable pressure from Lloyd's to clear the overdraft. It would appear from various minutes of GWL that the loan facilities which had been arranged with Citibank (for $50,000,000) and National Westminster Bank (for £34,000,000) were to reduce the group's overdraft facility within the LATF with the intention of repayment from reinsurance collections and cash calls which were due to be received in July.

M2. Because of the high level of claims and the slow rate of reinsurance recoveries, the Gooda Walker syndicates' overdraft within the LATF continued to rise and two alternatives were considered. These were to make an immediate cash call or to raise funds elsewhere. (Interim cash calls had already been made by Syndicate 298 for the 1988 and 1989 years of account and by Syndicate 290 for the 1989 year of account but the sums in question were not due from Names until 17th July 1991 at the earliest). It would appear from the GWL Board Minutes we have seen that Messrs. Walker and Pilch in particular were against the concept of a further cash call. Furthermore cash was needed to pay out the profit declared on the closure of Syndicate 290's 1988 account. At a Board meeting in mid-January 1991, Mr Robertson enquired whether it was right to defer further cash calls until June and, subsequently, Mr Jewell also expressed doubts about the deferral.

M3. From our investigations, we believe that the following events occurred after it became clear that further loans would not be available. Mr Walker held discussions with Pinnacle in late March 1991 to enquire whether Pinnacle would agree to advance funds to Syndicate 290 against the time and distance policies written by Pinnacle. Pinnacle's view of events was subsequently set out in a fax dated 4th November 1991 which is to be found in Appendix 14. It was agreed that the same result could be achieved through the immediate commutation of six time and distance policies. At the same time, the syndicate agreed a simultaneous reinstatement of four of these policies with the premium (and surcharges) being payable in August 1991 from the proceeds of cash calls and reinsurance recoveries.

The April Commutation

M4. On 2nd April 1991, the following six time and distance policies placed on behalf of Syndicate 290 were commuted, realising the sums of $34,246,000 and £8,216,000:

Policy	£	$
DA5852P00	1,779,000	-
DA6241R00	4,885,000	-
DA6444S00	1,552,000	-
DA5955P00	-	7,202,000
86DP00110	-	22,431,000
DA6094R00	-	4,613,000
TOTAL	£8,216,000	$34,246,000

M5. Cheques dated 2nd April 1991 were provided to GWL by C.E. Heath Insurance Broking Limited on that date. We believe these funds were used to reduce the syndicate's sterling overdraft with National Westminster Bank and its overdraft within the LATF.

M6. The commutation of two policies (DA5852P00 for £1,779,000 and DA5955P00 for $7,202,000) was disclosed in Note 4 to the Accounts for the year ended 31st December 1990, but the commutation and simultaneous reinstatement of the remaining four time and distance policies was not disclosed. The Syndicate Auditors have confirmed that they were unaware in May 1991 (when the 1990 Accounts were despatched to Names) that the four original policies had been cancelled.

M7. By a letter dated 22nd May 1991 addressed to the Syndicate Auditors, Mr Jewell and Mr Walker made the following statements to the Syndicate Auditors:

> "We confirm to the best of our knowledge and belief the following representations given to you in connection with your audit of the Syndicate accounts for the year ended 31st December 1990.
>
> In order to confirm these representations, we have made the appropriate enquiries of the active underwriter and his staff, and other directors and officials of this Agency and other Agencies whose Names participate on this Syndicate.

We acknowledge as directors our responsibility for the accounts".

Paragraph 1 confirmed that:

"all underwriting and accounting records have been made available to you ... all the transactions ... have been properly reflected in the underwriting and accounting records".

Paragraph 3 - Accruals of Reinsurance Recoveries - stated that:

"the net total of £23,364,167 relating to the 1988 and previous years of account represents the total of all material accruals of reinsurance recoveries known to be recoverable in respect of 1988 and previous years of account at the balance sheet date".

Paragraph 7 (Contingent Liabilities) stated that:

"any contingent liabilities affecting the Syndicate at the balance sheet date in relation to the 1988 and previous years of account have been taken into account in calculating the reinsurance to close".

"We further confirm that there are no contingent liabilities affecting open years and closing year at the balance sheet date which need to be reported to Names".

Paragraph 9 (Reinsurance - Special Contracts) repeated in exact terms Note 4 to the Accounts.

M8. The Syndicate Auditors have advised us that they inspected a number of time and distance policy documents prior to the completion of their audit. They further state that they were shown the policy documents of the original four policies which had in fact been commuted on 2nd April 1991.

M9. Syndicate 290's accounts for the year ended 31st December 1990 were dated 22nd May 1991, at which time the underlying securities had been released from the SFAs and sold by Pinnacle.

M10. We have identified cover notes dated 21st May 1991 which in three cases appear to have provided to Syndicate 290 the same cover as was provided by the relevant commuted policies. They provided for inception dates as of 5th August 1991. This was the same day on which the premium was due. Pinnacle have told us that the inception date was simultaneous with the commutation of the original policies and that Heaths' cover notes giving an inception date of 5th August

1991 are therefore incorrect. A fourth cover note in respect of Policy DA6094R00 provided for a $1m increase in indemnity.

M11. The reinstatement of the four policies gave rise to surcharges of $3,302,000 and £723,000, all of which were charged to the 1989 open year. The "reinstatement" premiums (that is, the premiums to match the commutation value in April 1991) were debited to the same years of account as the original policies. Mr Pilch told us that he was aware of the substantial interest charges but the syndicates needed cash and this was the only way to raise the funds as other forms of finance were no longer available.

M12. GWL's decision to allocate the surcharges to the 1989 open year appears to have been based on their view that it was the 1989 year which was giving rise to the overdraft position of the syndicates and that 1989 should therefore bear the cost of the commutation exercise. In our view, this was an over simplistic approach. From the cash flow forecasts prepared by E&Y (see Appendix 5), it can be seen that the 1988 and prior years of Syndicate 290 were rapidly heading into overdraft. We therefore believe that the 1988 year should have carried at least part of the surcharges relating to policies attaching to 1988 and prior years. The position is, however, inextricably linked to the overall question of future funding for the syndicates and in particular a decision would need to be taken on the proper level of reserves required at 31/12/90 (see Appendix 5) and we are therefore unable now to calculate an apportionment to the 1988 year.

M13. It is also noteworthy that the accounts at 31/12/90 were distributed to Names with an implicit assumption that the reinstatement premiums would be paid in August 1991. If sufficient funds had not materialised to enable the Pinnacle policies to be paid for, it is doubtful whether Pinnacle would have responded to claims. GWL was therefore taking a risk in making the assumption that the policies would be reinstated. This point is now somewhat academic, because the policies were in fact reinstated. In response to our draft Report, Mr Walker confirmed that:

> "in regard to the syndicate 290 policies which were replaced in April 1991 there was no break in cover and would [sic] have been declared in the next set of accounts".

<u>The June Commutation</u>

M14. We have referred to the severe cash flow problems experienced by the Gooda Walker syndicates throughout 1990 and to the loans which were obtained from both Citibank and National Westminster Bank in order to alleviate these problems.

M15. A loan of $20,000,000 had been advanced by Citibank to Syndicate 298 for the 1988 year of account. It appears that in June 1991, Syndicate 298 lacked the cash resources to meet the scheduled repayment of this loan and Citibank had made it clear that it was not prepared to consider any extension to the repayment date.

M16. As with the repayment of the overdraft in April 1991, four further time and distance policies were commuted in order to put the syndicates in funds. On this occasion, however, a different route was adopted. GWL on behalf of Syndicates 290 and 164 "agreed" to release to Pinnacle the securities held within the SFAs which were supporting certain time and distance policies. GWL on behalf of Syndicate 295 "agreed" to release Citibank from its obligation to provide letters of credit in respect of a time and distance policy held by it. Pinnacle then deposited the securities with Citibank as security for a loan to Pinnacle of $20,561,000. On 27th June 1991 Pinnacle paid various amounts to Heaths for the accounts of the syndicates whose contracts had been commuted in an amount totalling $15,426.000. Heaths, upon the direction of Mr Robertson, paid this sum to a Syndicate 298 "loan demand account" for the 1988 year of account at Citibank and on 28th June Pinnacle paid $5,135,000 to the LATF account of Syndicate 164. A transfer of $5,007,000 was made on 28th June 1991 from the LATF account of Syndicate 164 into the Gooda Walker syndicates' LATF pool account. On the same day, a transfer of $4,704,428.91 was made from Syndicate 298's LATF account with Citibank to the loan demand account with Citibank, London. The combination of $15,426,000 and $4,704,428.91 cleared the balance of Syndicate 298's "loan demand account" with Citibank.

M17. The Citibank loan of $20,000,000 to Syndicate 298's 1988 account had been made on the express basis that it would be for six months only. Representatives of Citibank told us at a meeting on 11th February 1992 that it was made clear to GWL that Citibank would require strict compliance with the terms of the loan.

M18. During the course of our meeting two representatives of Citibank were asked whether Citibank had known the source of the funds used by Syndicate 298 to repay the loan. They said that at the time of repayment neither of them had known. However, they both believed, at the time of the repayment of the loan, that the ultimate source of the funds would be a borrowing against or a commutation of one or more time and distance policies with Pinnacle, because Mr Moir of GWL had said at a meeting earlier in June 1991 that the funds would be raised in this way; although they had no interest in the identity of the time and distance reinsurer or indeed in the ultimate source of the repayment funds. At the time of repayment of the loan they were unable to identify the immediate source of the funds, because funds transfers are dealt with by Citibank's operations centre in Lewisham. When we inspected the files of Pinnacle,we found documentation relating to Citibank's loan to Pinnacle which included a letter from Citibank to Pinnacle headed "SHORT-TERM U.S. DOLLAR CREDIT FACILITY" and then the following:

> "Purpose - to finance the commutation of reinsurance contracts with Lloyd's syndicates 295, 164 and 290"

The Citibank letter to Pinnacle was from the Cotton Centre Branch in London, the same branch which made the loan to Syndicate 298 but not from either of the individuals who dealt with the loan to Syndicate 298.

M19. In a fax from Pinnacle to Citibank dated 19th June 1991, the purpose of the loan was set out with greater clarity:

> "The overdraft is required for the period from 27th June, 1991 to 27th August, 1991 and will be used to assist the short-term financing requirements of the Gooda Walker syndicates ahead of cash calls due in August. Their contracts with Pinnacle (see above) will be cancelled effective 27th June, 1991 and we have agreed to reinstate them on 27th August, 1991".

M20. The transactions described above were advantageous to Citibank because they resulted in an unsecured loan to Syndicate 298 being replaced by a secured loan to Pinnacle.

M21. On 27th August 1991, Syndicates 290, 295 and 164 reinstated the four time and distance policies by the payment of $21,013,000. (The cover notes issued by the brokers to the syndicates were dated 17th July 1991). In the case of Syndicates 290 and 164, the reinstated policies provided for additional premiums apparently in respect of the financing and administrative costs of the commutation and reinstatement of the four policies. Such costs in respect of the Syndicate 295 policy appear to have been "loaded" on to those for Syndicate 290. Mr Robertson informed us that there was no charge to Syndicate 295 because its active underwriter, Mr Ryan, objected. Mr Ryan has since confirmed this to us and has reiterated that he was not aware that GWL on behalf of Syndicate 295 had agreed to release Citibank from its obligation to provide letters of credit.

M22. The overall effect of the transactions appears to have been as follows:

(a) Syndicates 290, 295 and 164 commuted time and distance policies and allowed at least $15,000,000 of the proceeds to be paid to Citibank to clear an overdraft of $20,000,000 advanced to Syndicate 298 on a loan demand account;

(b) Syndicate 298 in effect therefore cleared its indebtedness with Citibank using the funds of Syndicates 290, 295 and 164; and

(c) for a period of one month, Syndicates 290, 295 and 164 ceased to have the benefit of secured time and distance policies with Pinnacle.

M23. It is necessary for us to deal with one further issue arising out of Mr Randall's Affidavit. After the Affidavit was served, Mr John Moir swore an Affidavit on behalf of the Defendant Members' Agents concerning paragraphs 77-82 of Mr Randall's Affidavit. Mr Moir's main point concerned the question of the financing of the June commutation and the fact that the costs were booked to Syndicates 290 and 164. He stated as follows:

> "The financing and administrative cost of the commutation and reinstatement of the four policies was met by Syndicate 290 and 164. It was however always the intention, and personally I would not have permitted this intention not to be carried out, that Syndicate 298 should reimburse the other syndicates for any losses incurred as a result of this transaction. The syndicates had a pool account and records were kept of the payments made by one syndicate on behalf of another. This type of lending between syndicates was entirely proper and common. There is nothing wrong with this type of lending between the syndicates. It is essential that there is a correct apportionment of cash and related interest costs to various syndicates in a group. This must be done before any further reporting to Names, especially in the preparation of the annual syndicate accounts. This would have been done in the normal course and I am sure will be done by the management now in place".

M24. There was reference to the commutation in the Minutes of a GWL Board meeting of 19th June 1991 as follows:

> "HJR has secured early borrowings against the T.& D. policies to enable the $20 million loan to Citibank to be repaid on time (30.6). The borrowings had to be done because the Names will not be paying their losses until 15.7. and Citibank wanted their loan repaid by the time stipulated. GW had to honour their commitment to Citibank and this had been achieved.
>
> The borrowings are against the T.& D. policies of Syndicate 290 and 164 and are based on their current values and repayable by 22nd July. Trying to negotiate a further extension of 30 days. $24 million borrowed at $280,000 (14% p.a.) cost which will be charged across the syndicates in the proportion of loans required.

Would like to emphasise the achievement of the repayment of the loan and securing the LOC. Thanks to everyone concerned".

M25. We have spoken to Mr Robertson about this and he has confirmed to us that the reference to charging the syndicates in proportion to loans required was to the fact that the costs would need to be debited to Syndicate 298.

N. **COSTS OF THE GOODA WALKER TIME AND DISTANCE PROGRAMME AND RATES OF RETURN**

N1. Substantial sums have been expended by the Gooda Walker syndicates in relation to time and distance policies. The total of direct costs on the Pinnacle policies (brokerage, reinsurer's margin, security and miscellaneous costs) amounts to some $9,138,945 and £572,248. In addition we have identified substantial surpluses retained by Pinnacle at the time of the commutation exercises in April and June 1991.

N2. The breakdown of direct costs borne by the Gooda Walker syndicates has been extracted from the files made available to us by Pinnacle and is therefore limited to the policies purchased from them.

N3. Brokerage

N3.1 The total brokerage paid by the Gooda Walker syndicates in respect of policies placed with Pinnacle was $1,241,250 and £75,671 most of which was paid to Heaths.

N3.2 The amounts of brokerage on individual contracts were not usually disclosed to the Gooda Walker syndicates nor do GWL appear at any stage to have queried Heaths' charges. Mr Robertson and Mr Walker told us that the rates of return on the time and distance policies were checked by Mr Pilch before the policies were purchased. Mr Pilch told us that until we raised the matter with him, he had not been aware of the existence of the "in-account" policies. He said that he had only been asked to comment on rates of return for the year end/RITC policies. When asked to do so, he had compared the rate offered by the reinsurer with that available in the conventional bond market. Inevitably, he said, the reinsurer's rate was lower because of brokerage and other charges but the underwriters took the view that the advantage to the syndicates of using time and distance policies was that they facilitated the effective discounting of reserves. Mr Robertson told us that GWL was concerned merely to ensure that the policies showed a good rate of return compared with interest rates published in the Financial Times.

N3.3 Heaths have informed us that it was not their practice to disclose brokerage to the syndicate and the figure was agreed direct with the reinsurer. They have told us that the average level of remuneration within the market on pure time and distance business was approximately 1%. From our review of Heaths' files we have been unable to identify a consistent basis for calculating the brokerage charged to the Gooda Walker syndicates for placing the contracts and the subsequent administrative follow-up. The brokerage charged was on a number of occasions well in excess of the normal level of remuneration (1%) referred to above. For example, an additional premium of $695,000 on Policy 86DP00110 attracted brokerage of $100,000 (or nearly 15%). Heaths in response to the above example in the draft Report suggested that we had not fairly reflected their position and that we should set out examples where the brokerage charged was well below the 1% figure. We accept that such examples exist.

N3.4 The placing of conventional reinsurance would normally involve the broker going into the market to approach a number of syndicates and companies. In the case of the Gooda Walker time and distance programme, Heaths used Pinnacle almost exclusively as the reinsurer for 100% of the risk. With few exceptions, we have seen little evidence that Heaths sought alternative quotes from other financial reinsurers.

N3.5 In most cases the policies had fixed repayment dates entailing limited work in claims collections. The Gooda Walker syndicates thus did not require specialist claims expertise and to a large extent Heaths have acted as a post box for claims collections. In such circumstances, we would have expected Heaths' charges to the Gooda Walker syndicates to have been negotiated on a fixed-fee basis from the outset. This would have accorded with our understanding of best market practice.

N3.6 By way of example of the limited amount of work required in placing this business, we consider in more detail the placing of Policy 86DP00110 and its replacement following the April 1991 commutations.

N3.7 On 29th April 1986, Mr Goodier, then employed by GSW, sent a telex to Pinnacle outlining the proposal. Pinnacle replied the same day confirming acceptance. Slips were prepared by GSW for signing, as were wordings and SFAs. A cover note was sent to Syndicate 290 and the documentation prepared for processing the premium. All documentation was in relatively standard form. The brokerage paid was $60,000.

N3.8 Subsequent amendments to the policy increasing limits and varying payment schedules would have required relatively little additional work. By this time, Mr Goodier had moved to Heaths and the Gooda Walker business appeared to follow him. Almost all negotiations were dealt with by means of telex/fax exchanges and $240,000 was charged in brokerage as follows:

Cover Increased by	$8,000,000
Premium	$3,815,000
Brokerage	$65,000
Margin	$728,000
SFA	$10,000

Cover Increased by	$21,500,000
Premium	$11,500,000
Brokerage	$175,000
Margin	$572,000
SFA	$5,000

N3.9 In relation to the April 1991 commutations, Pinnacle wrote to Heaths at Mr Walker's request, informing Heaths of the contracts to be commuted and of those contracts which would be reinstated in August 1991. The fax concluded with the following statement:

> "I have allocated US $100 thousand for you, which I hope you will find acceptable".

N3.10 We asked Heaths whether their brokerage and the margins earned by Pinnacle were disclosed to GWL. Heaths responded by drawing our attention to two contracts where there is evidence of GWL being advised of the brokerage charged and they further stated as follows:

> "By way of general observation, it was of course possible for Gooda Walker to work out the total expenses, which included brokerage, because the Pinnacle Investments were usually U.S. treasury stock, the rates of which are quoted publicly and were readily available.
>
> I do not understand what you mean by "margins". If you mean the profit earned by Pinnacle, there is no evidence that this was ever advised to C.E. Heath".

N3.11 We are unclear how it may be argued that GWL could have worked out the "total expenses" as we have not seen evidence of Pinnacle providing Heaths with statements of the securities supporting the SFAs. We have inspected statements from Bank of America which provide details of maturity values but these do not always assist in calculating the cost price of those securities.

N4. <u>Margin</u>

N4.1 The "margin" is the gross profit built into the premium by the reinsurer after allowance for (i) the cost of investments to produce the required indemnity, (ii) brokerage, (iii) security fees and (iv) other direct costs.

N4.2 The total margin charged by Pinnacle to the Gooda Walker syndicates was $5,623,470 and £38,670.74. Pinnacle have confirmed that margin was not a matter for negotiation with Heaths or indeed any other broker. It was for Pinnacle to decide how much margin was appropriate.

N4.3 Examples of the profit margins charged by Pinnacle in relation to the cancellation and replacement of policies in 1991 are as follows:

(a) Policy DA6241R00 was commuted and reinstated as Policy KX6078T00 for which a margin of £57,000 was charged. (The margin charged on the original placing of Policy DA6241R00 was £22,000).

(b) Policy 86DP000110 was commuted and reinstated as Policy KX6076T00 for which a margin of $560,000 was charged. (The total margin which had been charged on all sections of the original Policy 86DP00110 was $1,718,000).

(c) The total margin added for all the reinstatements in April and June was $930,000 and £75,000.

N5. <u>Miscellaneous Costs</u>

Syndicates 164, 290 and 295 incurred "miscellaneous costs" of $1,173,110. We are unclear what these costs were and we have asked Pinnacle for an explanation.

N6. <u>Costs of LOCs and SFAs</u>

In accordance with normal market practice, the Gooda Walker syndicates have met the direct costs (£109,906 and $1,101,115) relating to the establishment of SFAs or LOCs guaranteeing the future recoveries under the time and distance policies.

N7. <u>Profits on Commutations</u>

N7.1 It appears that on releasing the securities held in support of policies commuted by Gooda Walker syndicates in 1991, a surplus of $2,560,000 and £1,440,000 was retained by Pinnacle. For example:

(a) Policy DA6094R00 was commuted for a payment to Syndicate 290 of $4,613,000. Pinnacle's file indicates that Pinnacle in fact received $4,763,000 on the realisation of assets securing the policy, indicating a surplus to Pinnacle of US $150,000.

(b) Policy 86DP00110 was commuted for a payment to Syndicate 290 of $22,431,000. Pinnacle's file indicates that Pinnacle in fact received $690,000 in excess of this figure on the realisation of assets.

(c) Policy DA5955P00 was commuted for a payment to Syndicate 290 of $7,202,000. Pinnacle's file indicates that Pinnacle in fact received $7,480,000 on the realisation of assets, a surplus to Pinnacle of $278,000.

(d) Policy DA5852P00 was commuted for a payment to Syndicate 290 of £1,779,000. Pinnacle's file indicates that Pinnacle in fact received £1,844,200 on the realisation of assets, a surplus to Pinnacle of £65,200.

N7.2 We raised with Pinnacle the profits that they appear to have made out of the commutations. Pinnacle made three points:

(a) The investments in the security fund belonged to Pinnacle.

(b) If there was a profit on realisation of investments the profit was Pinnacle's.

(c) Pinnacle had no obligation to agree the commutation and could accordingly agree whatever value they wished.

N7.3 We observe, however, that neither GWL nor Heaths appear to have enquired about the proceeds of such realisations by Pinnacle, which it will be recalled was at the time a sister subsidiary of C.E. Heath Plc.

N7.4 In Appendix 10 we give details of various policies which were commuted and the proceeds used to acquire new policies.

N7.5 One example of this related to Policy DA6159R00. Policy DA6159R00 was purchased in March 1989 and was in respect of losses settled between 1st July 1987 and 1st April 1988. The brokerage was $85,000, the margin was $146,000 and the charge for the LOC was $54,000. The policy was cancelled in October 1989 and the refund of £3,845,000 was used to fund the purchase of Policy DA6241R00 with a premium of £4,218,000. The brokerage on this policy was £5,000, the margin £22,000 and the cost of the SFA £2,000.

N8. We understand that GGISL was formed in 1979 to manage the investment of the Gooda Walker syndicate funds. The Syndicate 295 accounts for the year ended 31/12/83 stated as follows:

> "The investments were previously controlled by various professional investment advisers which produced unsatisfactory results. It was therefore decided to form a Company which enabled us to monitor and control the Syndicate Funds more effectively.
>
> The Directors and Shareholders are as follows:
>
> DIRECTORS
>
> Anthony William Gooda
> Hugo Sutherland Pilch
> Derek James Walker
>
> SHAREHOLDERS

H.S. Pilch	500 shares (10%)
D.J.Walker	500 shares (10%)
B.J. Walker	1000 shares (20%)
A.W. Gooda (Non-beneficial)	1500 shares (30% - Family Trust)
H.S. Pilch (Non-beneficial)	1500 shares (30% - Family Trust)

> A management fee of 0.25% per annum is charged to each Syndicate on all cash and investments shown in the audited Balance Sheet at 31st December, 1983, and is comparable with the fees of other professional investment advisors.
>
> The fundamental aim and policy of the investment of Syndicate Funds is to preserve the Capital value of the investments. Secondary objectives include making the best possible return in regard to Interest, Dividends and Capital Appreciation. The estimated taxation consequences to the Name is also taken into account when making these judgements".

Mr Pilch has informed us that the management fee charged was not 0.25% throughout the entire period and that such fees moved in line with market rates reducing to as low as 0.0875% in certain instances.

N9. We have obtained GGISL's Annual Report and Accounts for the year ended 31st December 1988 which we understand are the most recent available. These show a turnover of £187,842 in 1988 and

£186,838 in 1987. Remuneration of £83,795 was paid to the directors in 1988, of which some £81,795 was paid to Mr Pilch. We understand that the Gooda Walker syndicates were GGISL's main clients and that the major part of GGISL's turnover was contributed by the Gooda Walker syndicates.

N10. We have commented above on the use of in-account policies as a means of generating a guaranteed investment return for the syndicates. We have seen no evidence that any of the directors or senior employees of GWL took account of the extent of the costs involved in purchasing such in-account policies.

N11. We have compared the returns on a sample of the time and distance policies purchased for the Gooda Walker syndicates with the returns then available on UK Gilts and US Government fixed interest securities. In the event that policies were amended or cancelled, the return has been estimated up to the date of amendment or cancellation. These calculations confirm that the rates of return achieved were below (and sometimes significantly below) the rates of return available in the conventional investment bond market.

O. **PROFIT COMMISSION**

01. We have calculated the profit commissions charged to Names (paid partly to GWL and partly to Members' Agents) which could be regarded as attributable to profits generated from the use of time and distance policies. We acknowledge that these calculations do not take account of the profit commissions which might otherwise have been payable on the additional investment earnings which subsequent years would have enjoyed had the syndicate funds not been locked up in off-shore time and distance policies.

02. The relevant enhanced profit commission were:

(a) Syndicate 164

Year of Account	Commission Enhancement (£)	
1984	124,319	
1985	(49,010)	(reduction)
1986	21,429	
1988	22,557	
TOTAL	119,295	

(b) Syndicate 290

Year of Account	Commission Enhancement (£)
1981	460,096
1983	228,594
1985	567,619
1986	1,337,497
1987	852,521
1988	228,400
TOTAL	£3,674,727

(c) Syndicate 295

Year of Account	Commission Enhancement (£)	
1983	12,939	
1986	(240,919)	(reduction)
TOTAL	(227,980)	(reduction)

03. The amounts of such profit commission in respect of other Gooda Walker syndicates were not material.

Randall Insurance Services Limited

7th April 1993

CHAPTER 3

HISTORY OF THE GOODA WALKER GROUP

1.0 BACKGROUND TO AGENCY

1.1 Introduction

1.1.1 W G Gooda commenced underwriting in 1946 as a sole trader managing marine syndicate 299 and its parallel syndicate 298. Marine syndicate 514 was commenced in 1962. In 1968 W G Gooda and Sons was formed as a combined managing and members' agent. Non-marine syndicate 164 was commenced in 1956 and aviation syndicate 295 in 1966. In 1970 a new company, Gooda Walker Ltd (GW) was incorporated and admitted to Lloyd's as a combined agent. GW took over the management of syndicate 295 in 1971 and 164 in 1977. Syndicate 290 commenced as a non-marine XL specialist syndicate in 1974 and 296 as an aviation personal accident (PA) syndicate in 1973 both under the management of GW. GW also managed the personal stop loss syndicate 387 which commenced in 1979 and the life syndicate 1052 which commenced in 1987.

1.1.2 In 1974, Gooda and Partners Ltd (GP) was incorporated and admitted as a combined agent to manage syndicates 299, 298, 514 and 164. Syndicate 298 and its sister syndicate 299 split in 1982 with the 1982 and prior years of 298 being reinsured into syndicate 299. Syndicate 298 then began underwriting as a specialist marine XL syndicate from 1983. Marine syndicate 514 was made a yacht syndicate by GP in 1981 but was closed in 1985.

1.1.3 In 1986 GP took over prime responsibility for the Group's members' agents' functions although GW was still technically a combined agent. Both GW and GP sub-contracted syndicate investment management functions to a company with common directors, Gooda Group Investment Services Ltd (GGIS). Gooda Walker Limited and Gooda and Partners Ltd both re-registered as combined managing and members' agents on 18 July 1986, under the Underwriting Agents Byelaw (No. 4 of 1984). W G Gooda and Sons Ltd was not re-registered.

1.1.4 The Group's syndicates grew rapidly in the 1980s as they entered the new excess of loss market. Although the results of the syndicates, with the exception of Syndicate 290, were no better than average many members' agents seemed anxious to place their Names on the Group's syndicates. The growth of the syndicates' premium income capacity, and latterly their decline is shown at Appendix 3.1. A parallel, but slower, growth occurred in the members' agents' function as shown at Appendix 3.2. The members' agents providing the most significant support to the managed syndicates over time are given at Appendix 3.3.

2.0 GROUP STRUCTURE

2.1 From 1 January 1990, a new company, Gooda Walker Holdings Ltd (GWH) was formed which became the holding company of GW, GP and a new service company Gooda Group Management Services Ltd (GGMS). As a result of the reorganisation, from 1 January 1990, GP became responsible for all members' agent's matters and GW became responsible for the management of all the Gooda Group syndicates.

3.0 **GROUP UNDERWRITING**

3.1 In the early 1980s, before the introduction of regulation on multiple and parallel underwriting, several of the syndicates' books of business were written in common. Aviation XL business in particular was written by the underwriter of syndicates 290 and 298 and was apportioned between syndicates 298, 290, 295 and 164. Some marine XL business had been written by the underwriter of syndicate 298 into syndicate 299 but this ceased in the early 1980s. Several of these common accounts were also protected by common reinsurance programmes across the syndicates. All of these arrangements ceased in 1986 save one. All of the non-marine catastrophe XL business of syndicate 164, which accounts for almost all of that syndicate's losses for the year under review, continued to be underwritten on syndicate 164's behalf by the underwriter of syndicate 290 until 1990.

4.0 **LIQUIDATION**

4.1 In September and October 1991, GP and GW were put into voluntary creditors' liquidation. GW Run-Off Ltd (GWRO) was established with the consent of Lloyd's by a number of the supporting members' agents to manage the orderly run-off of the syndicates. This company has sub-contracted the bulk of the administrative work to a company in the Bankside Group, City Run-Off Ltd (CRO).

4.2 At the same time the members' agent's functions of GP were transferred to Additional Underwriting Agencies (No. 8) Ltd (AUA8), a subsidiary of the Corporation of Lloyd's. AUA8 sub-contracted the administration of this work to Oxford Members' Agency Ltd a company in the Sturge Group.

5.0 **GOODA GROUP DIRECTORS AND SHAREHOLDERS**

5.1 Details of the recent composition of the boards of the Gooda Group companies are given in Appendix 3.4. Details of shareholdings at the time of liquidation together with notes showing some recent changes are given in Appendix 3.5. Essentially the group was controlled by Anthony Gooda and Derek Walker.

6.0 **DIRECTORS' PARTICIPATIONS ON SYNDICATES**

6.1 Appendix 3.6 shows the participation by Gooda Group directors on the syndicates under review together with personal stop loss policies held.

7.0 **MANAGEMENT**

7.1 From 1986 to 1988, there were monthly joint management meetings of GP and GW. From October 1988 to the end of 1989 joint monthly management and board meetings were held at alternate two-weekly intervals. From 1990, the GP board met monthly and the GW board quarterly with monthly management meetings. No Managing Director of GW was appointed until 27 March 1991. Responsibility for members' agents' matters tended to be led by Anthony Gooda and syndicate and underwriting matters, particularly for the non-marine syndicates, by Derek Walker. The finance function was represented by Hugo Pilch. Throughout the period there was however no clear line management structure. The method of control of the syndicates is expanded upon in Chapter 10.

120. SUBSTITUTE AGENTS BYELAW

No. 20 of 1983, 18 July 1983

COMMENCEMENT

This byelaw commenced on 18 July 1983.

1. The Council may, at its sole discretion, appoint a specified person to act as agent or sub-agent (a "Substitute Agent") for any underwriting member of the Society as to the whole or any part of that member's underwriting business:—

(a) where such member has no underwriting agent for the whole or such part of his underwriting business; or

(b) where in the opinion of the Council:—

  (i) such appointment is in the interests of such member; or

  (ii) it is essential for the proper regulation of the business of insurance at Lloyd's; or

(c) where the underwriting agent of such member is subject, either totally or in part, to a direction of administrative suspension or to a direction or suspension pursuant to a penalty or sanction imposed, confirmed or modified following disciplinary proceedings.

2. Where a Substitute Agent is appointed pursuant to this byelaw, the Council may give such directions as it considers appropriate:—

(a) to the Substitute Agent; and/or

(b) to an underwriting agent who at any time has acted for such member or who is subject to suspension (the "Prior Underwriting Agent");

in connection with the appointment of the Substitute Agent and the continuation of the agency business of the Prior Underwriting Agent or concerning the underwriting business of any member of the Society, and in particular without prejudice to the generality of the foregoing may direct that:—

(a) the Substitute Agent, or any director, partner, agent or employee thereof, be empowered to conduct the agency business of the Prior Underwriting Agent either totally or in part; and/or

(b) the Substitute Agent, or any director, partner, agent or employee thereof, be given possession of, or permitted access to, all or any particular class of, information, documents or other material in the possession, custody, power or control of the Prior Underwriting Agent; and/or

(c) the Substitute Agent, or any director, partner, agent or employee thereof, be permitted to make entries in all, or any particular class of, information, documents or other material in the possession, custody, power or control of the Prior Underwriting Agent; and/or

(d) the Substitute Agent, or any director, partner, agent or employee thereof, be permitted access to and control of all, or any particular class of, bank accounts, funds or other investments maintained or managed or controlled by the Prior Underwriting Agent in connection with its agency business whether directly or indirectly and whether as principal, agent or trustee; and/or

(e) the Prior Underwriting Agent or any director, partner, agent or employee thereof resign as trustee of all or any specified Premium Trust Funds or other trusts of which the Prior Underwriting Agent or the director, partner, agent or employee thereof is a trustee and concur in the appointment of new trustees acceptable to the Council; and/or

(f) the Prior Underwriting Agent execute any specified document, deed, contract, assignment, novation, mandate, authority or bill of exchange.

3. Where a Substitute Agent is appointed pursuant to this byelaw, the Council may:—

(a) give such directions to any member of the Society, any Lloyd's broker, any underwriting agent, any director, partner, agent or employee of a Lloyd's broker or an underwriting agent as the Council may consider appropriate in connection with the appointment of the Substitute Agent and the continuation of the agency business of the Prior Underwriting Agent or concerning the underwriting business of any member of the Society or for the protection of any Lloyd's policy holder, the Society, any member of the Society, any Lloyd's broker, any underwriting agent or any other person doing business at Lloyd's; and/or

(b) make such provision as it considers appropriate for the remuneration, expenses and indemnification of the Substitute Agent, which provision may include a direction that the Prior Underwriting Agent and/or members of the Society whose underwriting business is dealt with by the Substitute Agent make payment of remuneration and expenses to the Substitute Agent either totally or in part.

4. Where a direction is made under paragraph 2 or 3 of this byelaw, such direction shall take effect notwithstanding any contrary or inconsistent provision contained in any agreement between the Prior Underwriting Agent and any member of the Society.

5. The Council may, at its sole discretion, at any time take such actions and make such directions as it considers appropriate to revoke any appointment or direction made under this byelaw, and make such further directions consequential upon the revocation as it considers appropriate.

LLOYD'S: G W RUN-OFF LIMITED

RESOLUTION AND DIRECTIONS

Pursuant to the powers conferred by the Substitute Agents Byelaw (No. 20 of 1983) the Council:-

(A) being of the opinion that the appointment hereinafter made is

(i) in the interests of the Members of the Society hereinafter identified and, as a separate and several ground,

(ii) essential for the proper regulation of the business of insurance at Lloyd's

hereby appoints G W Run-Off Limited ("Run-Off") with effect from 10 October 1991 ("the effective date"), to act as agent for the Names hereinafter identified as to that part of their underwriting business at the effective date conducted on their behalf by Gooda Walker Limited ("Gooda") as more particularly identified in paragraph 1 of the Directions hereinafter set out

and

(B) being of the opinion that the Directions hereinafter given are appropriate

1. Directs Run-Off:

(i) to carry out the functions, powers and duties of a Managing Agent, being functions, powers and duties previously carried out by Gooda for the Names on Syndicates 164, 290, 295, 296, 298, 299 and 387 for all years of account which have not been closed by reinsurance.

(ii) to carry out such functions, powers and duties on the terms and conditions of the agency or sub-agency agreements in force immediately prior to the making of this Resolution and these Directions whereby Gooda have carried out the same.

PROVIDED THAT notwithstanding anything contained in any such agreements

(a) Run-Off shall not, without the prior consent of the Committee of Lloyd's, accept or underwrite new risks on behalf of any of the Names.

(b) Any profit commission, winding up fee or agency fee which becomes due on or after the effective date and which, but for this Resolution would be payable to Gooda, shall be apportioned between Gooda and Run-Off as the parties shall agree or failing such agreement, as the Committee directs.

(iii) to take possession of all such information documents or other material in the possession, custody or control of Gooda, relevant to the matters aforesaid in respect of which Run-Off has been appointed to act ("the Business"), as have not by agreement been provided to Run-Off by Gooda.

(iv) to give to any other Underwriting Agent acting for any of the Names in relation to that part of their Underwriting business as to which Run-Off is not appointed all such assistance in respect of the Names' underwriting as such Agent shall reasonably require, including (but without limitation) access to such information, documents and other material as aforesaid.

(v) to do all such acts and things as are necessary to constitute itself, or some or all of its directors, trustees of the Lloyd's Premium Trusts and any other trust of which Gooda (or any director, agent or employee thereof) are at the date hereof trustees in their capacity as Underwriting Agents for the Names in relation to the Business previously conducted by Gooda.

2. Directs Gooda and each and every director, agent and employee thereof

(i) to give Run-Off or its appointed representative possession of all such information, documents or other material as aforesaid.

(ii) to permit Run-Off or its appointed representative to have access to and control of all bank accounts, funds and other investments maintained or managed or controlled by Gooda or any director, agent or employee thereof (other than those beneficially owned or operated by them), whether directly or indirectly and whether as principal, agent or trustee.

(iii) to resign forthwith as trustee of any or all of the trusts specified at Paragraph 1 (v) hereof on the appointment by Run-Off of such Trustees and so far as may be necessary to concur in the appointment of Run-Off or some or all of its directors as new trustees.

(iv) without incurring any liability or responsibility in respect thereof to execute or concur in the execution of all contracts, deeds, assignments, mandates or other forms of authority or other documents reasonably required by or on behalf of Run-Off for the purpose of carrying out the Business.

(v) without incurring any liability or responsibility in respect thereof to do all such other acts and things as may reasonably be required by or on behalf of Run-Off for the aforementioned purpose.

3. Directs Gooda

(i) to indemnify the Society and Run-Off and to keep them indemnified against all liabilities, obligations, expenses and all other such costs incurred by the Society or Run-Off therein referred to, including but not limited to the running costs of Run-Off that are not chargeable as syndicate expenses:-

(a) pursuant to this Direction;

(b) through any acts or omissions by Gooda, its Directors, officers, servants or agents prior to the effective date.

4. Directs the Names, and any other Underwriting Agent acting for any of the Names, and any Lloyd's broker or Underwriting Agent which may have dealt or which may hereafter deal with Gooda or Run-Off in respect of the business, to permit Run-Off to carry out the functions, powers and duties for which it is hereby appointed upon the terms and conditions herein set out.

5. For the avoidance of doubt resolves and directs:-

(i) that nothing herein shall be construed or take effect as a novation or assignment of any agreement to which Gooda is a party or render Run-Off liable in respect of anything done or occurring prior to the effective date and that accordingly Run-Off's functions, powers and duties shall have effect notwithstanding any breach or repudiation of any agency or sub-agency agreement prior to the effective date.

(ii) that with effect from the effective date Gooda shall cease to act as agents for the Names in relation to the Business but without prejudice to any right which any of the Names may have against Gooda in respect of breach of contract, trust or duty or monies had or received.

The Deputy Chairman of Lloyd's having considered the aforementioned Resolution and being of the opinion it is a matter of urgency, pursuant to the powers delegated to him by the Council of Lloyd's dated 9 January 1991, Resolves as aforementioned, to be effective from the time indicated below.

.........Alan F Jackson.........

A Jackson: Deputy Chairman

Dated: ......10/10/91......

Time: ....11 A.M.........

SOL/EMP/mev/8525f.25-27

DEED OF INDEMNITY

B E T W E E N

THE SOCIETY OF LLOYD'S

- and -

G.W. RUN-OFF LIMITED

Waltons & Morse
Plantation House
31-35 Fenchurch Street
London EC3M 3NN

and at Lloyd's
Suite 642 and 643

THIS DEED is made the tenth day of October One thousand nine hundred and ninety one

BETWEEN

(1) THE SOCIETY incorporated by the LLOYD'S ACT 1871 by the name of LLOYD'S (hereinafter called "the Society"); and

(2) G.W. RUN-OFF LIMITED whose registered office is at 18-20 Creechurch Lane, London, EC3A 5AY (hereinafter called "GW")

WHEREAS

GW has been appointed by a Resolution passed under the authority of the Council of Lloyd's, ("the Resolution") pursuant to the Substitute Agents Byelaw No. 20 of 1983 to act as a substitute agent for the Names on Syndicates 290, 295, 296, 298, 299, 387, and 164 for the 1991 underwriting year of account and all earlier underwriting years of account not closed by reinsurance for whom Gooda Walker Limited previously acted.

NOW THIS DEED WITNESSETH as follows:

(1) In this Deed the following expressions have the following meanings respectively:

(i) "the Resolution" means the Resolution passed under the authority of the Council of Lloyd's dated the 10th October 1991 and made pursuant to the Substitute Agents Byelaw No. 20 of 1983 including any amendment or alteration thereto or any further Resolution made to GW in respect of any or all of the matters which were the subject of the Resolution.

(ii) "the Syndicates" means Syndicates 298, 299, 164, 290, 295, 296 and 387 as the same from time to time have been constituted.

(2) The Society shall procure that GW at all times has sufficient funds in order that it may properly discharge its duties and obligations

pursuant to the Resolution and shall (without prejudice to the generality of the foregoing) procure that GW has sufficient funds available to it to enable it to purchase Errors and Omissions Insurance at a level which is considered adequate by the Directors of GW, provided that GW shall consult with Lloyd's about the level and scope of any such insurance protection before effecting the same.

(3) The Society undertakes to hold GW harmless against and to indemnify GW in respect of all liabilities, costs, claims, demands or actions whatsoever made against, suffered or incurred by GW arising out of:-

(A) any act or omission by GW, its directors, officers, employees, or agents committed in connection with the performance of GW's duties and obligations pursuant to the Resolution, including but not limited to:

(i) breach of contract;

(ii) breach of trust;

(iii) breach of duty;

(iv) any negligent act, error or omission;

(v) any misstatement or misleading statement;

(vi) breach of warranty of authority;

(vii) defamation; or

(viii) the delegation by GW of any functions to a third party except insofar as such liabilities, costs, claims, demands or actions:-

(i) arise as a result wholly or in part of any fraudulent act or omission by any of the directors or officers of GW; or

(ii) are insured by any insurance effected by or on behalf of GW PROVIDED ALWAYS that the Society shall indemnify GW in respect of that part of any claim which is uninsured;

(B) any act or omission of Gooda Walker Limited, its directors, officers or employees in relation to its activities as Managing Agent for the Syndicates;

(C) all and any liability in respect of the staff employed by Gooda Walker Limited including payments for redundancy (whether incurred before or after 1st October 1991) including any liability which is incurred by GW as a result of any deemed transfer of employment of any such staff to GW by virtue of the provisions of the Transfer of Undertakings (Protection of Employment) Regulations 1981 other than any liability for redundancy payments which are properly chargeable to any of the Syndicates and for the purpose of this provision payments shall be regarded as properly chargeable to the Syndicates where the relevant Syndicate auditor for the time being regards the payment as being a syndicate expense considered normally acceptable in accordance with Schedule 1 of the Code of Practice for Underwriting Agents of Syndicate Expenses approved by the Council of the Society in February 1989 or any amendment or modification thereto.

(4) GW will give prompt notice to the Society in writing (through the Secretary to the Council) of any facts or circumstances which it reasonably considers likely to lead to a claim in respect of which GW is entitled to be indemnified against and GW shall take such action as the Society may reasonably request to dispute, resist, appeal, compromise or defend such a claim (including taking any action which the Society may consider appropriate against any third

party including any director, officer or employee of GW from whom GW may be legally entitled to recover the amount of any such claims in the whole or in part) PROVIDED ALWAYS that the Society shall forthwith indemnify GW against any losses, claims, demands, liabilities and expenses incurred by it with the agreement of the Society in consequence of taking such action.

(5) GW will give prompt notice to the Society in writing (through the Secretary to the Council) of any appointment made to or resignation or removal from the board of GW.

(6) GW shall at all times act responsibly and with due care as if this Indemnity had not been granted.

(7) (a) Should any dispute arise in connection with or concerning the validity, application or interpretation of this Indemnity the Society shall, subject to the provisions of this Clause, have the option of referring the matter to arbitration in London in accordance with the provisions of the Arbitration Acts 1950 to 1979 or any statutory modification or re-enactment thereof for the time being in force.

(b) Any arbitration shall be by a person appointed for that purpose by the Society and GW by agreement in writing or failing such agreement within one month after the exercise by the Society of its option then by a person appointed for that purpose by the Chairman for the time being of the General Council of the Bar of England and Wales or any body replacing the same.

(c) The Society shall not have the option to refer any dispute to Arbitration except in accordance with the following provisions:

(i) in respect of any proceedings commenced by the Society the Society shall exercise its option at the time of commencement of any proceedings and at no other time;

(ii) in respect of any proceedings to be commenced by GW GW shall provide the Society with written notice of its intention to commence proceedings and the Society shall within fourteen days after the date of any such notice notify GW whether or not the Society wishes to exercise its option and in default of any such notice the Society shall be deemed not to have exercised such option.

(d) In the event that the Society exercises its option the Society shall be responsible for all costs of whatsoever nature incurred by the Society and GW in connection with or arising out of such arbitration irrespective of the outcome of the dispute and whether or not a settlement is reached before any Award is made by the Arbitrator and for the avoidance of doubt costs shall not be at the discretion of the Arbitrator or any other body or person.

(8) This Deed is governed by, and shall be construed in accordance with, the laws of England and, subject to the provisions of Clause 7 above each of the parties hereby irrevocably submits for all purposes of and in connection with this Deed to the exclusive jurisdiction of the courts of England.

IN WITNESS whereof this document has been executed as a Deed by the parties named below the 10th day of October 1991

The Seal of the Society of Lloyd's was
hereunto affixed in the presence of:

M L Glove

Authorised Signatory

SIGNED as a Deed by R. Sharp)
R. Mankiewitz for and on behalf of)
G.W. RUN-OFF LIMITED in the)
presence of:-)

Diane [illegible]
Walrons + Morse

1st; K.E. Randall; 2nd Defendant;
Sworn this 31st day of March 1992

IN THE HIGH COURT OF JUSTICE

1992 FOLIO NO B 516

QUEEN'S BENCH DIVISION

COMMERCIAL COURT

B E T W E E N:

DESMOND GEORGE BOOBYER — Plaintiff

- and -

(1) DAVID HOLMAN & COMPANY LIMITED
(2) THE SOCIETY OF LLOYD'S — Defendants

AFFIDAVIT OF
KENNETH EDWARD RANDALL

I, KENNETH EDWARD RANDALL, of 5 Lloyd's Avenue, London, EC3N 3BN, MAKE OATH and say as follows:

1. I am by training an Accountant. I have held various posts connected with the Lloyd's insurance market over the past 17 years and have gained considerable experience of the workings of that market in the course of my employment. I have held various posts within the Corporation of Lloyd's. From 1982 to 1984, I was employed as Head of Regulatory Services. From 1985 to 1991, I was Chief Executive of Merrett Holdings Plc.

A. BACKGROUND

2. Gooda Walker Limited ("GWL"), the Managing Agent of Syndicates 164, 290, 295, 296, 298/222, 299/297, 387 and 1187, went into voluntary liquidation on 4th October 1991, when its shareholders passed an Extraordinary Resolution to wind the company up. On 10th October 1991, the Council of Lloyd's appointed G.W. Run-Off Limited ("GWRO") to be the substitute Managing Agent of the Gooda Walker syndicates pursuant to Lloyd's Substitute Agents Bye-Law (No. 20 of 1983).

3. On 30th December 1991, I was instructed by the Board of GWRO and its legal advisers to carry out an investigation into certain aspects of the management of the Gooda Walker syndicates prior to 4th October 1991 and to report my findings to the Board of GWRO and its legal advisers. To date my investigation has concentrated on the financial reinsurance ("time and distance") programme generated by GWL on behalf of the Gooda Walker syndicates.

4. At the time I received the above instructions, I was trading as "Randall Insurance Services" and from 3rd February 1992 I have been assisted by my colleague Mr Stephen Bailey (a Solicitor). Randall Insurance Services Limited ("RISL") has since been incorporated and I am a director of that company. GWRO's instructions were transferred to RISL with effect from 1st March 1992. On 12th March 1992, I was appointed a director of GWRO.

5. The purpose of this Affidavit is to describe the steps which RISL has taken to investigate the Gooda Walker time and distance programme and to set out its findings on this matter to date. I must emphasise that the investigation into these matters is at a preliminary stage and much remains to be done. The information set out in this Affidavit is the latest information available to me and many of the matters deposed to have only become clear recently. As the investigation is at a preliminary stage, I have confined this affidavit to setting out the facts and not sought to draw any inferences or conclusions.

6. I have been requested and am authorised to make this my Affidavit by the Board of GWRO and I do so as a Director of that Board. In normal circumstances the Board would have awaited the conclusion of all aspects of the investigation before making any report to Names. There are a number of reasons why this would have been the right course and in the interests of all Names:

   a) the investigation is at an interim stage and more time is needed to confirm the facts and before firm conclusions can be drawn;

   b) there is some risk that premature disclosure of the interim results of the investigation might inhibit the future conduct of the investigation;

c) on completion of the investigation the Board would have been in a far better position to decide on an overall strategy to do what was best for the Names faced with such enormous liabilities to policy holders.

Lloyd's is of the firm view that the Names have incurred liabilities to policy holders which must be discharged and funds are needed for this purpose; furthermore, the annual solvency test is due to be completed by the end of April and it is becoming clear that further cash calls will be needed for this purpose. Lloyd's have made clear that funds for both purposes must be made available by operation of the usual procedures and chain of security; they have made clear that they will proceed to draw down on deposits if cash calls are not paid. Given these circumstances, the Board considered that Names were entitled to be told now of the information revealed by the investigations to date. I understand Lloyd's share the opinion that this material must be put before the Court and be made known to all Names. The Board of GWRO has consented to this Affidavit being filed by Lloyd's in the above action. The Board have instructed me to complete my investigations as soon as possible and when they are completed, they will do all they can to prosecute any recovery actions available to the Names.

7. The facts and matters deposed to herein are based either on my knowledge or belief derived from my inspection of documents and discussions with a number of the parties involved or alternatively on the basis of facts and matters discovered by Stephen Bailey during his investigations which he has communicated to me and which I believe to be true.

8. For ease of reference, I set out below a brief description of the various parties referred to in this Affidavit:

<u>Name</u>	
Gooda Walker Limited ("GWL")	The Managing Agent for Syndicates 164, 290, 295, 296, 298/222, 299/297, 387 and 1187 ("the Gooda Walker syndicates") until its liquidation on 4th October 1991 and which was responsible for the placement of all time and distance policies referred to herein.
G.W. Run-Off Limited ("GWRO")	The substitute Managing Agent appointed by the Council of Lloyd's on 10th October 1991 and which is charged with all duties and obligations formerly vested in GWL with regard to the management of the Gooda Walker syndicates.
Randall Insurance Services Limited ("RISL")	An insurance consultancy retained by GWRO to provide certain management services on its behalf and to undertake various investigations into the prior activities of GWL, in conjunction with legal advisers instructed by GWRO.
Pinnacle Reinsurance Company Limited ("Pinnacle")	A company incorporated in Bermuda specialising in the writing of financial reinsurance including time and distance contracts and which has written all time and distance policies referred to herein.
C.E. Heath Plc and its subsidiary companies ("Heath")	The companies within the C.E. Heath Group, some of which acted as brokers for GWL in the placing of time and distance policies investigated and also the parent of Pinnacle at all material times.
Golding Stewart Wrightson Limited ("GSW")	Lloyd's brokers who were usually retained by GWL to place time and distance policies on behalf of the Gooda Walker syndicates and who in most cases were replaced as brokers of record by Heath with effect from June 1987.
Littlejohn Frazer ("the Syndicate Auditors")	The auditors of all the Gooda Walker syndicates at all material times.
Derek Walker	The active underwriter of Syndicate 290 and a director of GWL.
Hugh Robertson	The claims manager of Syndicate 290 and a director of GWL.

B. <u>TIME AND DISTANCE POLICIES - GENERAL</u>

9. For the purpose of the annual solvency test, the basis of which is approved annually by the DTI, Lloyd's syndicates are not permitted to discount the reserves which they must hold to meet outstanding and future claims and thus they are unable, in calculating the amounts necessary to meet such claims, to take account of future investment earnings on the funds so held.

10. It is sometimes argued by proponents of time and distance reinsurance that the inability to discount reserves in respect of long tail business (where claims will not be paid for many years) in itself creates an inequity between Names on the different years of account of a Lloyd's syndicate in that Names on a subsequent year of account will enjoy the investment earnings on claims reserves which have been established by and charged to Names on a preceding year of account. In part to overcome this anomaly, there has been a rapid growth in the 1980's in the purchase of time and distance policies (sometimes referred to as "financial reinsurance"). The contrary view is that as the Names on subsequent years of account assume the risk and the burden of any deterioration on the back years, they should also enjoy the benefit derived from investment income on the RITC fund or any improvement on the back years.

11. A time and distance policy is a contract of indemnity whereby, in return for a premium and in the event of the payment of claims at a predetermined level, (which both parties anticipate will occur), the reinsurer agrees to indemnify the reinsured in respect of such claims up to an agreed sum of money equal (broadly) to the amount of the premium paid plus compound interest less the reinsurer's margin for expenses and profit; in the event of claims not resulting in a total loss to the policy, an additional sum in the form of profit commission is usually payable to the reinsured. Time and distance policies frequently specify the earliest date(s) on which the cedant syndicate may claim on the reinsurance policy. It is worth noting that in my discussions with Pinnacle I have been told that they considered at the time they wrote each policy that it would be a total loss, in other words, that the agreed level of claims would be settled by the syndicate.

12. The reinsurer is usually an off-shore entity, based in a nil or low tax jurisdiction to maximise the net of tax return on the investment of the premium. Because of concerns over the security of such reinsurers, it is often a term of the policy that the full indemnity value must be backed by letters of credit (payable to the syndicate on a predetermined future date) drawn on or confirmed by a major UK bank. Alternatively, the reinsurer may arrange for funds to be deposited with a major bank and held to the syndicate's order under a security fund agreement ("SFA"). The option selected by GWL in most but not all cases were SFA's.

13. Time and distance policies are used extensively in the Lloyd's market (as well as in other insurance markets). In general, syndicates aim to match the recoveries to be obtained from the reinsurer under the policy to the anticipated cash needs of the syndicate to meet claims as they fall due. Since the purchasing syndicate may be unable to effect recoveries under the policy before a predetermined date, often far into the future, when placing such a policy the syndicate ought to forecast its cash flow to ensure that the recoveries under the policy allow for the cash needs of the syndicate. We have asked both Mr Robertson, who we understand would have been primarily responsible for the production of such cash flows, and the Syndicate auditors to provide us with copies of the relevant forecasts which support the purchase of the time and distance policies in question. We have not been provided with copies of any such cash flow forecasts although the Syndicate auditors yesterday evening discovered a calculation made at the time of placing the policy dealt with at paragraph 30 below.

14. Some time and distance policies provide for early commutation but in any event the reinsurer may be prepared to agree terms for the early "release" of funds. The terms for early commutation of time and distance policies can be penal, to protect the reinsurer from the loss it is likely to suffer as a result of early realisation of the underlying assets supporting the policy and lodged with a bank under the terms of an SFA. Furthermore, whilst the syndicate will have the benefit of more liquid assets on early commutation, it suffers a reduction in the indemnity value provided by the policy which will give rise to a corresponding loss (or reduction in profit) in the syndicate accounts. Early commutation can result in a significant impact on the syndicate results, for example, where an earlier year of account had taken the credit for the full indemnity value of the policy and a later year has to suffer a downwards adjustment on commutation. The outcome of early commutation could be an inequity between the Names on the earlier year of account (who would have enjoyed the benefit of the policy) and the Names on the later year of account (who would have assumed any loss at the time of commutation): see paragraph 10 above.

15. Although it has financing characteristics, a time and distance policy is generally accepted in the London Insurance Market and by Lloyd's as a contract of reinsurance. The premium is deductible for tax purposes but the Inland Revenue insists that credit is at the same time taken by the purchasing syndicate for the full indemnity value of the policy. Thus, the excess of the indemnity over the cost of the premium will give rise to an immediate "gain" which will increase the profits for the purchasing syndicate or reduce its losses. The longer that a recovery is deferred under a time and distance policy, the smaller is the initial purchase cost and the greater is the benefit that can be derived. Where a profit is generated or increased through the use of time and distance policies and distributed to Names, this will result in profit commission charges for both the Managing Agent of the syndicate concerned and the Members' Agent who placed Names with that syndicate.

16. A significant disadvantage of time and distance policies is that substantial syndicate funds may be "locked" into the policy until the predetermined settlement dates. This can have a material impact on the functioning of the syndicate if normal cash flows are impeded. Whatever the size of the time

and distance benefit taken (which will largely be determined by the date on which recoveries are due), the Names will be adversely affected if, as a result of the premium paid by the syndicate being tied in to the policy for such a period, the syndicate has insufficient liquid assets to meet claims as they fall due.

17. To reduce to the necessary minimum the possibility of the financial penalty described in paragraph 13, the cash flow forecasts will need review and renewal each year. If it appears likely that the syndicate will be unable to meet claims as they fall due, it will be necessary to add a financing charge (representing an estimate of interest payable on future borrowings) to the reinsurance to close.

18. The Council of Lloyd's for some time has had under review the accounting treatment of such policies and has issued minimum standards of disclosure which must appear in the annual reports given to syndicate auditors.

19. The accounting treatment of time and distance policies is now governed by the Syndicate Accounting Bye-Law (No. 11 of 1987) and the accompanying explanatory notes. That Bye-Law came into force with effect from 1st January 1988. Paragraphs 44 and 75 to 82 of the explanatory notes (copies of which are now produced and shown to me marked "KER 1") stipulate that time and distance policies are exceptional items which must be separately disclosed in the accounts under the provisions for the reinsurance to close. Such disclosure must, moreover, assist the reader in understanding the impact of each policy and of any recoveries thereunder.

20. The treatment of time and distance policies in the Gooda Walker syndicate accounts is still under investigation and the investigation has so far concentrated on the time and distance programme effected on behalf of Syndicate 290, because this appears to have been the subject of most activity.

21. A preliminary analysis of the accounts of Syndicate 290 for the years ended 31st December 1983 to 31st December 1990 inclusive is set out in the next following section of this Affidavit. In summary, these accounts show that references to the reinsurance arrangements of Syndicate 290 included general references to "stop loss" or "aggregate stop loss" reinsurances (as time and distance policies were sometimes described). A list of so-called "special contracts" (purporting to be a complete list of all time and distance policies then subsisting) was provided in the accounts for the years ended 31st December 1987 and following in accordance with the new regulatory requirements.

C. <u>TREATMENT OF TIME AND DISTANCE POLICIES IN THE ACCOUNTS OF SYNDICATE 290</u>

22. A list of those time and distance policies purchased on behalf of Syndicate 290 which has been produced at my request by Heath is now produced and shown to me marked "KER 2". Some of these policies were both purchased and commuted within a short time frame and would not therefore fall to be dealt with in the syndicate accounts at the close of the underwriting years in question. I set out below in chronological order the terms in which time and distance policies were disclosed in the accounts of Syndicate 290. There is now produced and shown to me marked "KER 3" a copy of the relevant extracts of the accounts of Syndicate 290 for the years ended 31st December 1983 to 31st December 1990.

<u>Year Ended 31/12/83</u>

23. The combined Underwriter's and Managing Agent's Report contained the following statements:

> "We do at all times make every effort to keep the reserves of the Syndicate as strong as possible. This is done by the reinsurance carried out of the closed year which is also backed up by Excess Loss and Stop Loss Reinsurance.
>
> ...
>
> <u>Closed Year</u>
>
> As anticipated last year, the 1981 account has closed with a very good profit, we had an improvement in our investments but a reduction in pure underwriting profit".

24. I assume the reference to stop loss reinsurance was intended to encompass the time and distance policy referred to in paragraph 26 below.

<u>Year Ended 31/12/84</u>

25. The Underwriter's Report disclosed for the first time the level of protection provided by the time and distance (stop loss) programme:

"Reinsurance

We have in force a major reinsurance programme to protect us; this covers the whole account protection and is backed up by specific reinsurance for the different classes. This programme is placed by major Lloyd's Brokers with the largest proportion placed in the Lloyd's market. We are very careful with Company security and will only accept first class companies. The 1981 (and prior) Account was protected by substantial aggregate Stop Loss cover amounting to some $8,150,000. This has now been extended to cover 1982 at minimal net cost.

Closed Year

We are pleased to report that in these difficult times we have been able to make a profit on the 1982 Account. It is not as good a result as predicted last year as we have taken into account the Market trend which is showing a marked deterioration in the Non-Marine Market and may in due course produce claims on this syndicate".

26. The stop loss protection referred to above was provided by way of a single time and distance policy (Ref: 84MX01776) purchased from Pinnacle in the amount of US $8,150,000 xs US $9,000,000 (in other words, the policy would only begin to pay when the syndicate had, commencing on 1st January 1984, settled claims in excess of US $9,000,000). The securities deposited with Bank of America under the terms of the SFA were due to mature on 31st March 1991, although the policy itself contained no restrictions as to when claims could be made under the policy. Section 3 of the SFA refers to a Lloyd's reinsurance of Pinnacle. I deal at paragraph 73 below with this Lloyd's reinsurance and the timing risk. A copy of the cover note and SFA relating to this policy appear at pages 1 to 11 of a bundle of documents which is now produced and shown to me marked "KER 4".

27. It is correct that the policy was extended to cover the 1982 year of account and that the additional premium for this was only US $10,000 (see the second premium entry on page 1 of Exhibit "KER 2"). The extended policy was negotiated so that the claims paid by the syndicate during the 1984 calender year were to be ignored in the calculation of the excess point. Thus, with effect from 1st January 1985, the level of paid claims is deemed to have reverted to zero thus reinstating the full excess point (or value of claims to be settled by the syndicate) before any claim can be lodged with reinsurers. To assess the impact of this variation, it is necessary to ascertain what was then known to have been settled in 1984. These figures have been supplied to me by the Syndicate auditors in the form of detailed paid and outstanding loss triangulations for Syndicate 290, copies of which are now produced and shown to me marked "KER 5". It can be seen on page 28 of Exhibit "KER 5" that the higher diagonal of boxed single figures shows the settlements during 1984 in respect of the 1981 and prior accounts. During 1984, Syndicate 290 settled US $ 1,990,362 on its 1981 and prior accounts.

28. The Underwriter's Report also contained the following statement:

"Future

... The reinsurances protecting the syndicate are at all times under constant review and we believe our current policy covers the needs of the syndicate and is the best available".

Year Ended 31/12/85

29. The Underwriter's Report contained the following statements:

"Reinsurance

We have in force a major reinsurance programme to protect us. This covers the whole account protection and is backed up by specific reinsurance for the different classes. This programme is placed by major Lloyd's Brokers with the largest proportion placed in the Lloyd's market. We are very careful with Company security and will only accept first class companies. The 1983 (and prior) Account has been protected by substantial aggregate Stop Loss cover which now amounts to some $13,150,000; this is in addition to the reserves shown in the accounts.

Closed Year

We are more than pleased to report a profit for the 1983 account. This year has been one of the most difficult years in which to make a profit. As we advised you last year the Syndicate suffered from large losses on the Hurricane Alicia in the USA and further large claims caused by the winter freeze in North America. This year has been one of the worst years for claims since we commenced, but with the purchase of reinsurance we have been able to close with a reasonable profit.

...

Future

... We intend to keep in force our current reinsurance programme and, if the market is available, to expand our protections".

30. It appears that in April 1986 Syndicate 290 purchased a further time and distance policy (Ref: 86DP00110) for US $5,000,000 xs US $17,150,000. A copy of the cover note and SFA relating to this policy appear at pages 12 to 24 of Exhibit "KER 4". The policy covered losses settled after 1st January 1986 and protected the 1983 and prior years of account. Thus, the 1982 and prior years of account had protection of US $8,150,000 (see paragraph 26 above) and the 1983 and prior years of account had protection of US $5,000,000, amounting to US $13,150,000 in total.

Year Ended 31/12/86

31. The Underwriter's Report contained the following statements:

"Reinsurance

We have in force a major reinsurance programme to protect us. This covers the whole account protection and is backed up by specific reinsurance for the different classes. There has been no major change in our protection. This programme is placed by major Lloyd's Brokers with the largest proportion placed in the Lloyd's market. We are very careful with Company security and will only accept first class companies.

The 1983 (and prior) Account has been protected by substantial aggregate Stop Loss cover which now amounts to some $13,150,000; this is in addition to the reinsurance to close shown in the Accounts. This reinsurance is placed with an overseas company which is backed up by a security fund agreement with a major American bank.

Closed Year 1984 Account

In closing the 1984 account we are pleased to report a profit. The year was not marked by any particular major loss and the claims settlements seemed to come mainly from large numbers of smaller claims. This year was the last year before the substantial increases in rates, as the effect of Hurricane Alicia in the United States had not really come through to the market.

The performance of the reinsurance to close received by the closed year of account has shown a deterioration on some years, and this we have taken into account in the closing of this year.

...

Future

... As we have advised all our Names in the past, this Syndicate is a High Risk by the nature of the business it writes and we have nearly reached the limit of Reinsurance that is worth buying.

We must always live with the problem which must apply to all Syndicates that in the event of a major loss we could run out of reinsurance protection, but we have produced good results in the past ten years and we can but await future losses which we hope will be contained within our reinsurance programme".

32. There was no additional purchase or variation of subsisting time and distance policies during 1986, nor prior to the determination (in early 1987) of the reinsurance to close the 1984 year of account.

33. It is nevertheless necessary to set out, in light of the above, certain events which took place in May and June 1987.

34. On 15th May 1987, the Directors of GWL approved the accounts of Syndicate 290 for the year ended 31st December 1986. These accounts contained the statement that:

"The performance of the reinsurance to close received by the closed year of account has shown a deterioration on some years".

35. In June 1987, the two time and distance policies which protected Syndicate 290 were amended as follows:

Policy No 84MX01776: US $8,150,000

(a) The indemnity was increased to US $9,150,000 on payment of an additional premium of US $350,000;

(b) The policy excess was increased by US $1,000,000 to US $10,000,000;

(c) Despite a deterioration on back years, claims paid in calendar years 1985 and 1986 were to be ignored in the calculation of the excess point;

(d) The 1983, 1984 and 1985 years of account were added;

(e) Maturity of funds held in the SFA (which had originally been due to mature on 31st March 1991) was rescheduled as follows (although the policy itself still contained no limits on when claims could be made under the policy):

Amount	Date
US $2m	15/5/91
US $2m	15/5/92
US $5.15m	15/5/93

It can be seen on page 28 of Exhibit "KER 5" that the lower diagonal of boxed double figures shows settlements during 1985 and 1986 in respect of the 1982 and prior years of account amounting to US $2,757,875. Thus, by the time the variation to the policy was effected on 26th June 1987, the Syndicate had agreed to ignore (for the purposes of calculating the excess point) claims payments amounting to at least US $4,748,237 or over half of the original excess.

Policy No: 86DP00110: US $5,000,000

(a) The indemnity was increased to US $13,000,000 on payment of an additional premium of US $3,815,000;

(b) The policy excess was increased by US $2,000,000 to US $19,150,000 (to reflect the amendments to underlying policy 84MX01776 above);

(c) Claims of US $794,154 paid in calendar year 1986 were to be ignored in the calculation of the excess point; two further years of account were added. (This is shown by the figure appearing in respect of the 1983 year of account under the column headed "4" at page 28 of Exhibit "KER 5"); and

(d) Projected settlement of funds under the policy was rescheduled as follows:

Amount	Date
US $3m	15/5/94
US $3m	15/5/95
US $3m	15/5/96
US $1m	15/5/97
US $1m	15/5/98
US $2m	15/5/99

Copies of the relevant endorsements regarding the above amendments are at pages 14 and 15 of Exhibit "KER 4".

36. It thus appears that the Directors of GWL were prepared, within one month of acknowledging that the back years were deteriorating, in effect to ignore for the purpose of calculating the excess point claims payments on a number of years of account in the amount of US $3,552,029 and to defer collections further into the future.

37. A Note to the Accounts for the year ended 31st December 1986 provided further information about the Syndicate's time and distance programme:

> "Reinsurance to Close
>
> The Syndicate has two whole account aggregate reinsurance policies: in respect of 1982 account and prior for $8,150,000 excess of $9,000,000 and for 1983 account and prior for $5,000,000 excess of $17,150,000. There are no timing restrictions regarding recoveries on the 1982 policy; however the 1983 policy imposes an interest charge of 2% over the Euro-Dollar 12 months deposit rate for any recoveries made prior to 31st December 1990. It is not expected that there will be any recoveries prior to that date for the 1983 policy.

The balance of indemnity not already reclaimed is recoverable in specified amounts on fixed dates between 1991 and 1994. The policies are protected by security lodged with Bank of America N.T. & S.A. London, England, with maturity/cover values equal to the amounts so recoverable".

38. Whilst it is correct to say that no timing restrictions were imposed on Policy No. 84MX01776 for the 1982 and prior years of account, we have ascertained that Pinnacle was reinsured by the arrangements referred to in paragraph 73 below.

39. However, I note that Syndicate 290 was not expecting to make any recoveries on the policy for the 1983 and prior years of account before December 1990.

Year Ended 31/12/87

40. The Underwriter's Report referred to excess of loss (and not stop loss) reinsurances only, presumably because detailed information about the time and distance programme was, for the first time, disclosed in a Note to the Accounts as was required by the new Syndicate Accounting Bye-Law.

41. The Underwriter's Report contained the following statements:

"1985 Closed Year

The 1985 result disclosed an underwriting profit of £4,971,045, a significant improvement over the 1984 account underwriting profit of £1,109,686.

Last year I gave a rather gloomy forecast for this year but the position improved over the last 12 months. Forecasting open years is one of the most difficult things to do regardless of Lloyd's regulations, and one can only make a very rough estimate.

Old Years

In closing the account we have had to take note of a large number of new claims advised on some of the old years on the US $ account, and we have felt it prudent to substantially increase our reserves. This has produced a deficit on the US $ account of $15,949,745 arising primarily in the years 1980-1984 from Casualty and Rig Business. To off-set any loss to a Name we have purchased additional Stop Loss protection for $30,500,000 for a premium of US $15,665,000. After reinsurance this has still left a Name with a good profit on the 1985 pure account".

42. The additional protection referred to above was obtained by the variations to policies referred to in paragraph 35 above and a further variation of Policy No. 86DP00110.

43. By the further variation, in return for an additional premium of US $11,500,000, the indemnity was increased by US $21,500,000. The whole of the increase in the indemnity was scheduled for recovery not before 15th May 1996.

44. The benefit of £7,891,000 taken by the Syndicate in respect of time and distance policies in the year in question appears material in the context of the profit reported by the Syndicate for that year of account (£3,066,000).

45. The Notes to the Accounts for the year ended 31st December 1987 set out detailed information relating to time and distance policies and this is to be found at page 18 of Exhibit "KER 3".

Year Ended 31/12/88

46. The Underwriter's Report referred to the excess of loss reinsurance arrangements (see paragraph 40 above) and also contained the following statements:

"1986 Closed Year

The year was free of any major loss and this has been reflected in a very good underwriting profit. The 1986 underwriting profit of £12,159,978 was a significant improvement on the 1985 underwriting profit of £4,971,045.

Old Years

As a reinsurance Syndicate we are always in the hands of the original assured and we have to suffer the problem of late loss advices. There seems no particular pattern to the notified losses although we are seeing more evidence of Asbestosis claims. Despite the contention of the Inland Revenue that last year's reinsurance to close was too high we have again thought it prudent to increase old year reserves by buying a Stop Loss protection of $16,500,000 at a cost of $8,200,000".

47. The protection purchased by this policy was not recoverable until 15th November 1996. A copy of the cover note relating to Policy No. DA6151R00, together with the relevant SFA, is to be found at pages 25 to 35 of Exhibit "KER 4". I have not seen any cash flow analysis that supports the deferred recovery of this further substantial sum until 1996 at the earliest. In October 1989, the excess point was increased to US $59,150,000 to reflect an adjustment to the underlying policy 86DP00110 (see paragraph 49 below).

48. The Notes to the Accounts for the year ended 31st December 1988 provided further information relating to the Syndicate's time and distance programme and this is to be found at page 19 of Exhibit "KER 3"

Year Ended 31/12/89

49. The Underwriter's Report stated that:

"1987 Closed Year

Last year I had to advise you of a potential 25% loss on this year owing to the large claims being received on the UK windstorm loss in October 1987. Fortunately, the loss settlements have died away and to close the year we are now able to give an accurate assessment of the final position. It is nice to be able to advise you of good news in that, although we have run out of reinsurance protection on this loss and even with an underwriting loss overall of £2,789,285 on the pure year, we have been able to make a profit with the help of good investments plus a break-even on the old years. This goes to prove the difficulty in assessing a reinsurance account as one can easily over react, but I forecast on the bleak side hoping we would be able to contain the loss in the long run.

Old Years

The old years are running off with no problems this year, but in anticipation of a loss for the 1987 account to close we have re-adjusted our existing aggregate stop loss protections to produce an additional surplus and we have further purchased a sterling policy in the amount of £7,000,000 at a cost of £4,218,000, thereby producing the underwriting result of £3,250,649".

A further time and distance policy (Ref: DA6241R00) was purchased to pay £7,000,000 xs £5,000,000 settled on or after 1st January 1991. This policy was referred to elsewhere in the Underwriter's Report. A copy of the cover note and SFA relating to this policy is to be found at pages 36 to 45 of Exhibit "KER 4". In addition, on 18th October 1989 there was a further adjustment to Policy No. 86DP00110 which increased the indemnity from US $34,500,000 to US $40,000,000 largely by deferring a substantial proportion of the recovery scheduled for 1996 until 1999 (see page 5 of Exhibit "KER 2").

50. The Notes to the Accounts for the year ended 31st December 1989 provided further information relating to the Syndicate's time and distance programme and this is set out at page 23 of Exhibit "KER 3". What is not disclosed is that the new sterling policy referred to above was financed from the proceeds of commutations of other policies which had largely been paid for in US dollars.

Year Ended 31/12/90

51. The Underwriter's Report stated that:

"1988 Closed Year

We are very pleased to be able to report that this year has closed with a good profit, confirming our expectations of last year.

Old Years

The old years overall are running off with no major problems to report, other than a small deterioration of 2.1775% of the reinsurance to close".

The Notes to the Accounts provided further information relating to the Syndicate's time and distance programme and this is to be found at page 26 of Exhibit "KER 3" (but see paragraphs 56 to 69 below).

D. IMPACT OF TIME AND DISTANCE POLICIES ON THE RESULTS OF SYNDICATE 290

52. An analysis of the impact of time and distance policies on the results of Syndicate 290 for the years of account from 1981 to 1988 inclusive illustrates the impact which these policies had.

53. I have prepared the following table from the figures provided in the Syndicate accounts for the years in question and from information provided by the Syndicate auditors. My analysis has been confirmed by the Syndicate auditors:

Year of Account	Syndicate Capacity £	Profit after Personal Expenses £	T&D Benefit taken £	Cheque for £10,000 line £
1981	5,135,000	1,994,000	3,210,000	*3,800
1982	6,150,000	1,379,000	-	2,243
1983	8,135,000	988,000	1,351,000	1,214
1984	13,485,000	1,277,000	-	947
1985	25,295,000	3,066,000	7,891,000	1,212
1986	37,725,000	8,118,000	4,585,000	2,178
1987	48,165,000	4,412,000	5,766,000	916
1988	69,746,000	10,929,000	997,000	1,567

*Approximate restated profit per Syndicate auditors.

54. In light of the position set out in this table, it is the next stage in my investigation to review the statements made in the Syndicate accounts referred to above. I am particularly concerned to investigate the following:

(1) (a) whether the dates selected for the recoveries under the time and distance policies were and continued to be realistic having regard to the likely claims payment pattern of the business underwritten;

(b) whether the effect of the selection and maintenance of dates far into the future for large recoveries under time and distance policies inflated the profits of the Syndicate which were then distributed to Names;

(c) whether the liquidity of the Syndicate to meet claims was impaired by the locking up of funds per (a) and/or the distribution to Names of inflated profits per (b); or

(2) whether the time and distance programme was a proper attempt to ameliorate the cost to Names of carrying conservative reserves.

Until my investigation has been completed it is not possible to reach any conclusion on the above.

55. In paragraph 15 above, I explained that the Inland Revenue requires that time and distance recoveries be credited in full to the year of account being closed. The amount of that benefit is the difference between the premium paid and the sum which will ultimately be recoverable. Using the figures in the above table, I have calculated the profit commission charged to Names which could be regarded as attributable to profits generated from the use of time and distance policies:

	£
1981	460,096
1983	228,594
1985	567,619
1986	1,337,497
1987	852,521
1988	228,400
	3,674,727

However, it must be remembered when considering these figures that the Syndicate might otherwise have generated increased investment earnings.

E. COMMUTATION OF TIME AND DISTANCE POLICIES IN 1991

56. The accumulation of claims in respect of market catastrophes in 1987, 1988, 1989 and 1990, exacerbated by delays in securing reinsurance recoveries, had resulted in a heavy outflow of cash for a number of Gooda Walker syndicates throughout 1990. By early March 1991, the vast majority of syndicate investments had been liquidated, the Gooda Walker syndicates were substantially overdrawn within the Lloyd's American Trust Fund ("LATF") and the Board of GWL was under considerable pressure from Lloyd's to clear the LATF overdraft. Moreover, loan facilities had been arranged with Citibank (for US $50,000,000) and National Westminster Bank (for £34,000,000) of which drawings of US $50,000,000 and £5,000,000 were outstanding.

57. Because of the high level of claims and the slow rate of reinsurance recoveries, the Gooda Walker syndicates were unable to repay their overdraft within the LATF from their own resources and the alternatives considered appear to have been to make an immediate cash call or to raise funds elsewhere. (Interim cash calls had already been made by Syndicates 298 for the 1988 and 1989 years of account and 290 for the 1989 year of account but the sums in question were not due from Names until 17th July 1991 at the earliest). Furthermore cash was needed to pay out the profit declared on the closure of Syndicate 290's 1988 account.

58. From investigations to date I believe that the following events occurred. Mr Derek Walker held discussions with Pinnacle in late March 1991 to enquire whether Pinnacle would agree to advance funds to Syndicate 290 against the time and distance policies written by Pinnacle. Pinnacle's response appears to have been that they were not a bank and did not have uncommitted funds at their disposal. It was agreed that the same result could be achieved through the immediate commutation of 6 time and distance policies. At the same time, the Syndicate may have agreed a reinstatement of these policies with the premium (and surcharges) being payable in August 1991 from the proceeds of cash calls and reinsurance recoveries. I have seen a note of a meeting with Mr S. Lawrence, Managing Director of the London office of Pinnacle, in which he confirmed that the arrangements to cancel and replace policies were put into effect in response to a request from Mr Walker for assistance from Pinnacle.

59. With effect from 2nd April 1991, the following 6 time and distance policies placed on behalf of Syndicate 290 were commuted, realising the sums of US $34,246,000 and £8,216,000:

Policy	£	US $
DA5852P00	1,779,000	
DA6241R00	4,885,000	
DA6444S00	1,552,000	
DA5955P00		7,202,000
86DP00110		22,431,000
DA6094R00		4,613,000
	£8,216,000	US $34,246,000

60. The above figures were confirmed in the list of time and distance policies to be found in Exhibit "KER 2".

61. Cheques dated 2nd April 1991 were provided to GWL by C.E. Heath Insurance Broking Limited on that date. (Copies of these cheques are to be found at page 46 of Exhibit "KER 4"). I believe these funds were used to reduce the Syndicate's sterling overdraft with National Westminster Bank and its overdraft within the LATF but this is a matter still under investigation.

62. I now refer to the accounts of Syndicate 290 for the year ended 31st December 1990 (see pages 24 to 27 of Exhibit "KER 3"). These were approved by the Board of GWL and dated 22nd May 1991.

63. Although the commutation of two policies (DA5852P00 for £1,779,000 and DA5955P00 for US $7,202,000) was disclosed in Note 4 to the Accounts, the commutation of the remaining 4 time and distance policies referred to in paragraph 59 was not disclosed. The Syndicate auditors have confirmed to me that they were unaware in May 1991 that the 4 policies had been cancelled.

64. By a letter dated 22nd May 1991 addressed to the Syndicate auditors, a copy of which is to be found at pages 47 to 51 of Exhibit "KER 4", Mr D.R. Jewell (a director of GWL) and Mr Walker made the following statements to the Syndicate auditors:

"We confirm to the best of our knowledge and belief the following representations given to you in connection with your audit of the Syndicate accounts for the year ended 31st December 1990.

In order to confirm these representations, we have made the appropriate enquiries of the active underwriter and his staff, and other directors and officials of this Agency and other Agencies whose Names participate on this Syndicate.

We acknowledge as directors our responsibility for the accounts".

Paragraph 1 confirmed that:

"all underwriting and accounting records have been made available to you ... all the transactions ... have been properly reflected in the underwriting and accounting records".

Paragraph 3 - Accruals of Reinsurance Recoveries - stated that:

"the net total of £23,364,167 relating to the 1988 and previous years of account represents the total of all material accruals of reinsurance recoveries known to be recoverable in respect of 1988 and previous years of account at the balance sheet date".

Paragraph 7 (Contingent Liabilities) stated that:

"any contingent liabilities affecting the Syndicate at the balance sheet date in relation to the 1988 and previous years of account have been taken into account in calculating the reinsurance to close".

"We further confirm that there are no contingent liabilities affecting open years and closing year at the balance sheet date which need to be reported to Names".

Paragraph 9 (Reinsurance - Special Contracts) repeated in exact terms Note 4 to the Accounts, to be found at page 26 of Exhibit "KER 3"

65. The Syndicate auditors have advised me that they inspected a number of time and distance policy documents prior to the completion of their audit. They further state that they were shown the original policy documents of the 4 policies which had in fact been commuted on 2nd April 1991.

66. Syndicate 290's accounts for the year ended 31st December 1990 were dated 22nd May 1991, at which time the policies which had been used to raise money in April no longer existed and the underlying securities had been released from the SFA's and sold by Pinnacle. It has also been confirmed to me by Pinnacle that it was agreed between GWL and Pinnacle that upon receipt of funds from the June cash calls, the 4 policies would be reinstated. I do not as yet know whether the agreement to reinstate the policies was a gentlemen's agreement or a binding contract, although I have seen evidence in Pinnacle's files that forward purchases of securities had been made by Pinnacle for the purpose of reinstating the SFA's in August 1991.

67. Although we have identified cover notes dated 21st May 1991 which in three cases appear to provide to Syndicate 290 the same cover as was provided by the relevant commuted policies, the schedule at "KER 2" provided by Heath gives the inception dates as 5th August 1991 and this was the day on which the premium was due. A fourth cover note in respect of Policy No. DA6094R00 provided a US $1m increase in indemnity. The reinstatement of the 4 policies gave rise to surcharges of US $3,302,000 and £723,000, all of which were charged to the 1989 open year. The "reinstatement" premiums (that is, the premiums to match the commutation value in April 1991) were debited to the same years of account as the original policies. An assessment of these transactions in terms of Syndicate profitability is set out in paragraph 68 below. Copies of these cover notes are to be found at pages 52 to 60 of Exhibit "KER 4". If cover note KX6079T00 is taken as an example, this appears to replace commuted contract 86DP00110. However, the SFA backing the policy became effective on 5th August 1991 and it was only then that the policy had any substance.

68. From the above I need to investigate whether the results of the 1988 account of Syndicate 290 have been overstated in either of the following ways:

Either:

a) The surcharge for the 2 reinstated policies relating to the 1988 and prior years of account (which was charged to the 1989 account) should been charged to and have formed part of the reinsurance to close the 1988 account ie.

Policy No. 86DP00110	$2,022,000 or	£1,058,639
Policy No. DA6241R00		£ 542,000
Total sterling equivalent		£1,600,639
		======

or:

b) That since the policies had been commuted, the accounts should have taken credit for the proceeds of the commutations and not the full indemnity value of the policies (the treatment which was followed in the case of policies DA5852P00 and DA5955P00).

	Full Indemnity Amount		Commutation Amount
Policy No. 86DP00100	$40,000,000		$22,431,000
Policy No. DA6241R00	£ 7,000,000		£ 4,885,000
Profit Overstatement:	$17,569,000	+	£ 2,115,000
Total Sterling Equivalent			£11,313,429

69. The above figures will need to be reviewed by the Syndicate auditors to assess the impact of the additional information now available.

F. INTER-SYNDICATE TRANSACTIONS AND TIMING RISK REINSURANCES

70. Our examination of the files of Pinnacle has revealed that policies placed with them are written in various formats: some have the appearance of conventional excess of loss contracts whereas others are clearly time and distance policies and provide for a fixed sum to be paid at some future date, with or without a timing risk.

71. Where a policy provides for the payment of a fixed sum at a future date, the reinsured carries the risk that its settlements will run at a faster level than it has forecast, leaving it to obtain cash from alternative sources to fund the claims settlement pending the recoveries.

72. Pinnacle have informed us that they do not as a matter of practice retain and will not normally accept any timing risk and accordingly all such timing risks are reinsured with third parties before Pinnacle will agree to be bound on the underlying time and distance contract.

73. As noted in paragraph 38 above, there was no timing restriction imposed on Policy No. 84MX01776 but Pinnacle structured the arrangements as if they were to take no timing risk.

(a) They created an SFA for the securities with fixed maturity dates that were to cover the indemnity under the policy, but

(b) They procured a reinsurance from Syndicate 727 at Lloyd's for the timing risk. Syndicate 727 was in turn reinsured by another Lloyd's syndicate not identified on the cover note. The security was in fact Syndicate 164 (a syndicate also managed by GWL) which would therefore have incurred at least part of any loss resulting from a claim being made on Pinnacle in advance of the anticipated date.

74. As a result of the amendments referred to above, claims payments made in 1984, 1985 and 1986 were in fact ignored for the purpose of calculating the excess point.

75. On 11th July 1990, Hugh Robertson wrote to Heath advising that settlements on the policy for the period 1st January 1987 to 31st December 1989 amounted to US $6,704,197 and he wrote again on 26th March 1991 advising of settlements in 1990 of US $6,609,716. Copies of these two letters are to be found at pages 79 and 80 of Exhibit "KER 4" respectively. In these letters the reference to policy 875474 is the new reference for policy 84MX01776. The policy excess was amended to US $10,000,000 effective 26th June 1987. Thus, at 31st December 1990 the total settlements were US $13,313,913 which entitled the syndicate to make a recovery under the policy of US $3,313,913. However, as can be seen from his letter of 26th March 1991, Mr Robertson limited his request for recovery to US $2,000,000, thus matching the maturity of the securities in the SFA rather than operating the contract in accordance with strict policy terms. It should also be noted that the above figures were in addition to claims payments of US $4,748,237 which had previously been left out of account for the purposes of calculating the policy excess point. Therefore but for the foregoing the claim Syndicate 290 would have been entitled to make under the policy at 31st December 1990 was US $8,062,150.

76. I am still investigating operation of this reinsurance underwritten by Syndicate 164. We have been advised by Mr Hugh Robertson that Syndicate 164 has been carrying an outstanding claims reserve for some years. Indeed, it has purchased specific time and distance reinsurance from Pinnacle in respect of this anticipated claim. I also draw attention to the pencil note at the foot of the letter from Mr Robertson to Heath on 11th July 1990 a copy of which is to be found at page 79 of Exhibit "KER 4".

G. SYNDICATE LOANS AND FURTHER COMMUTATION OF TIME AND DISTANCE POLICIES IN JUNE 1991

77. I have referred above to the severe cash flow problems experienced by the Gooda Walker syndicates throughout 1990 and to the loans which were obtained from both Citibank and National Westminster Bank in order to alleviate these problems.

78. A loan of US $20,000,000 was advanced by Citibank to Syndicate 298. It appears that in June 1991, Syndicate 298 lacked the cash resources to meet the scheduled repayment of this loan and Citibank had made it clear that it was not prepared to consider any extension to the repayment date.

79. As with the repayment of the overdraft in April 1991 (see paragraphs 56 to 69 above), 4 further time and distance policies were commuted in order to put the syndicates in funds. On this occasion, however, a different route was adopted. Syndicates 290 and 164 "agreed" to release to Pinnacle the securities held within the SFA's which were supporting certain time and distance policies. Syndicate 295 "agreed" to release Citibank from its obligation to provide letters of credit in respect of a time and distance policy held by it. Pinnacle then deposited the securities with Citibank as security for a loan to Pinnacle of US $20,561,000. On 27th June 1991 Pinnacle paid US $15,426,000 to a Syndicate 298 "loan demand account" at Citibank and on 28th June Pinnacle paid US $5,135,000 to the LATF account of Syndicate 164. A transfer of US $5,007,000 was made on 28th June 1991 from the LATF account of Syndicate 164 into the Gooda Walker syndicates LATF pool account. On the same day, a transfer of US $4,704,428.91 was made from Syndicate 298's LATF account with Citibank to the loan demand account with Citibank, London. The combination of US $15,426,000 and US $4,704,428.91 cleared the balance of Syndicate 298's loan demand account.

80. On 28th July 1991, Syndicates 290, 295 and 164 reinstated the 4 time and distance policies by the payment of US $21,013,000. In the case of Syndicate 290 and 164, the reinstated policies provided for additional premiums apparently in respect of the financing and administrative costs of the commutation and reinstatement of the 4 policies. Such costs in respect of the Syndicate 295 policy appear to have been "loaded" on to those for Syndicate 290. Mr Robertson has advised me and I believe that there was no charge to Syndicate 295 because its active underwriter, Mr E. Ryan, objected.

81. The overall effect of this transaction appears to be as follows:

(a) Syndicates 290, 295 and 164 commuted time and distance policies and allowed at least some US $15,000,000 of the proceeds to be paid to Citibank to clear an overdraft of US $20,000,000 advanced to Syndicate 298 on a loan demand account; and

(b) Syndicate 298 therefore cleared its indebtedness with Citibank using the funds of Syndicates 290, 295 and 164;

(c) For a period of one month, Syndicates 290, 295 and 164 ceased to have the benefit of secured time and distance policies with Pinnacle.

82. Furthermore, adjustments will be required to ensure that Syndicate 298 reimburses Syndicates 290, 295 and 164 for the costs incurred by these syndicates in respect of the above transaction.

Sworn this 31st day of March 1992

at 2 Sergeant's Inn, Fleet Street,
London, EC4Y 1LL

K. RANDALL

Before me,

P.J. WESTWOOD

A Solicitor

SYNDICATE 290 CASH FLOW

AIM OF THE EXERCISE

The aim of the exercise is to take the assets and liabilities in the balance sheet for years of account 1988 and prior and convert them into a future stream of income and outgo. The cash flows are based on the position at 31 December 1990 and are calculated on two bases.

Basis A

This takes the assets and liabilities actually held in the accounts at 31 December 1990 for 1988 and prior underwriting years.

Basis B

This takes the liabilities at 31 December 1991 and backdates them to 31 December 1990 by adding on the paid in 1991. Because the estimates of outstanding claims have increased the liabilities exceed the assets held at 31 December 1990, consequently it was assumed that no profit commission or profit would have been paid, and a notional cash call would have been made to bring the assets to the level of the liabilities.

Basis C

This has the liability cash flows used in Basis B compared with the actual assets held at 31 December 1990 for 1988 and prior underwriting years.

It should be noted that any estimated cash flow is based on several assumptions and is merely an estimate. The results are heavily dependent on the estimates of future liabilities, and if these estimates prove to be incorrect, this will be reflected in the cash flows. We have not made an independent assessment of the level of these future liabilities.

ERNST & YOUNG

DATA

The detailed cash flows are based on the following data:

Report and Accounts as at 12/90 and 12/91.

A split of the 12/91 net reserves by year of account and by class of business in the case of IBNR

Details of net paid to date in 1991, and net outstanding claims by audit code and year of account

For 31/12/90, details of IBNR by audit code.

Development triangles of net paid claims at the Whole Account level

Allocation of claims

In the allocation of claims, short tail claims are those from audit codes CF, F, H, K, P, R and 80% of code Z. Long tail claims have been calculated as the remainder.

Within the short tail claims category Hurricane Alicia and event 87J (the 1987 October Storm) were separately identified, net and gross of reinsurance. Asbestos and pollution claims net of reinsurance were separately identified in the long tail claims class.

Where the data was split by currency, the exchange rates at 31 December 1990 were used ie:

US $	1.93	=	£ 1.00
Can $	2.24	=	£ 1.00

Details of the assets as at 31/12/90 relating to 1988 and prior were supplied by Littlejohn Fraser.

Projected recoveries from Time and Distance policies were supplied by management.

IBNR

The IBNR as at 31/12/91 was established by management on a different basis to that on 31/12/90. In carrying out the cash flow estimates it was necessary to allocate the split of IBNR between the classes of claim on a historically consistent basis at each year end. Short tail is assumed to be the catastrophe IBNR only, with long tail as the remainder. The provision for future reinsurance failure was allocated on a proportional basis.

ASSETS

The assets relating to 1988 and prior years of account were split into cash type assets and reinsurance accruals. Accruals were assumed to decrease over several years.

METHOD OF ESTIMATING CASH FLOW

After discussion with management, the following methods and assumptions were adopted.

Long tail excluding asbestos and pollution

A pattern of settlement of claims was derived by looking at past settlement of claims and industry data. This was adjusted for recent experience.

Short tail excluding catastrophes.

As there is very little experience to base a settlement pattern on, the length of tail was assumed to be 4-5 years with payments decreasing with time.

Short tail catastrophes

The payments for Alicia are assumed to run off at a steady rate over the next 8-9 years with no payments in 1991 or 1992 as this event is not expected to exceed the reinsurance available before then.

87J, on the other hand, because of the improvement in claims settlement procedures has been assumed to tail off more quickly.

Asbestos and Pollution

It is very difficult to project settlement patterns for this type of claim due to the uncertainty in the claims process and the various market initiatives - CCR and ACF - which have distorted the natural progression, indeed further developments such as case consolidation could lead to highly unpredictable patterns. The main cash flow is based on an increasing settlement each year until 1999 for asbestos and 1995 for pollution and a steady fall thereafter.

RESULTS

The resulting outwards cash flows from claims are compared with the cash available at 31.12.90, the projected cash collections in respect of the balance of reinsurance accruals in each calendar year and recoveries from time and distance policies. Interest on cash is assumed at 7.16% per annum and on overdrafts at 10.16% per annum - these were approximate rates in the US at 12/90.

The exercise highlighted the sensitivity of the cash balances to changes in the tail assumptions. This is to be expected, but the effect is exacerbated by the fixed nature of the Time and Distance policies. As the account progresses it will be possible to reassess the estimated cash flows based on the actual cash flows. The results shown are from a "one-off" exercise and we recommend that they are updated regularly to allow for actual experience. In particular as this is to form part of a report to be published next year, it may be advisable to update the work done to include the actual 1992 figures.

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Analysis of Future Cash flow - uses GW figures at 31 12 90 1.93 Exchange Rate Basis A

All figures in £000's

Return on Cash 7.16%

	Opening Cash	Reinsurance Accruals Reduction	Claims Paid: 1987 &prior Short Tail	Long Tail	Allcia	Cat 24	87 J	Pollution	Asbestos	1988 Short Tail	Long Tail	T&D Recovery	Cash Before Interest	Interest	Closing Cash
1991	£22,943,000	£2,168,728	£1,848,083	£5,628,089	£0	£0	£6,014,043	£0	£230,866	£1,831,063	£449,010	£1,036,269	£10,146,843	£1,271,518	£11,418,361
1992	£11,418,361	£1,390,351	£3,733,480	£4,688,519	£0	£0	£2,004,943	£0	£159,068	£3,640,857	£182,789	£1,036,269	(£564,674)	£444,972	(£119,703)
1993	(£119,703)	£2,096,545	£3,733,480	£3,984,535	£259,067	£0	£2,004,943	£0	£191,000	£1,820,428	£130,563	£2,668,394	(£7,478,781)	(£297,738)	(£7,776,519)
1994	(£7,776,519)	£2,137,729	£1,866,740	£3,492,327	£259,067	£0	£1,537,211	£0	£191,000	£1,820,428	£130,563	£8,554,404	(£6,381,723)	(£609,729)	(£6,991,452)
1995	(£6,991,452)	£2,178,180	£1,866,740	£3,023,167	£259,067	£0	£0	£0	£229,082	£910,214	£130,563	£1,554,404	(£9,677,702)	(£730,165)	(£10,407,866)
1996	(£10,407,866)	£1,705,546	£0	£2,432,421	£259,067	£0	£0	£0	£229,082	£910,214	£130,563	£10,621,762	(£2,041,906)	(£553,990)	(£2,595,897)
1997	(£2,595,897)	£1,091,026	£0	£2,029,109	£259,067	£0	£0	£0	£274,898	£0	£130,563	£2,072,539	(£2,125,969)	(£183,684)	(£2,309,652)
1998	(£2,309,652)	£1,010,017	£0	£1,771,493	£0	£0	£0	£0	£274,898	£0	£78,338	£2,072,539	(£1,351,825)	(£134,630)	(£1,486,455)
1999	(£1,486,455)	£892,318	£0	£1,557,640	£0	£0	£0	£0	£329,838	£0	£26,113	£11,398,964	£8,891,236	£282,316	£9,173,552
2000	£9,173,552	£773,505	£0	£1,561,921	£0	£0	£0	£0	£263,989	£0	£58,754	£0	£8,062,393	£645,905	£8,708,298
2001	£8,708,298	£723,141	£0	£1,509,624	£0	£0	£0	£0	£211,231	£0	£45,697	£0	£7,664,886	£613,142	£8,278,028
2002	£8,278,028	£539,864	£0	£1,518,227	£0	£0	£0	£0	£168,985	£0	£52,225	£0	£7,077,455	£570,130	£7,647,585
2003	£7,647,585	£405,077	£0	£1,485,004	£0	£0	£0	£0	£135,069	£0	£52,225	£0	£6,380,364	£517,737	£6,898,101
2004	£6,898,101	£296,147	£0	£1,315,359	£0	£0	£0	£0	£108,095	£0	£26,113	£0	£5,744,682	£464,111	£6,208,793
2005	£6,208,793	£195,865	£0	£1,190,382	£0	£0	£0	£0	£86,476	£0	£26,113	£0	£5,101,688	£412,734	£5,514,421
2006	£5,514,421	£115,174	£0	£1,037,555	£0	£0	£0	£0	£69,220	£0	£13,056	£0	£4,509,764	£363,682	£4,873,446
2007	£4,873,446	£50,306	£0	£788,635	£0	£0	£0	£0	£55,337	£0	£13,056	£0	£4,066,724	£322,389	£4,389,114
2008	£4,389,114	£36,343	£0	£500,416	£0	£0	£0	£0	£44,230	£0	£45,836	£0	£3,834,975	£296,089	£4,131,064
2009	£4,131,064	£18,507	£0	£258,672	£0	£0	£0	£0	£35,503	£0	£45,836	£0	£3,809,561	£285,147	£4,094,708
2010	£4,094,708	£14,850	£0	£62,389	£0	£0	£0	£0	£5,157	£0	£45,836	£0	£3,996,176	£290,255	£4,286,431
2011	£4,286,431	£4,486	£0	£0	£0	£0	£0	£0	£0	£0	£29,168	£0	£4,261,749	£306,203	£4,567,952
2012	£4,567,952	£2,276	£0	£0	£0	£0	£0	£0	£0	£0	£0	£0	£4,570,228	£327,228	£4,897,457
2013	£4,897,457	£1,821	£0	£0	£0	£0	£0	£0	£0	£0	£0	£0	£4,899,278	£350,788	£5,250,066
2014+	£5,250,066	£5,757	£0	£0	£0	£0	£0	£0	£0	£0	£0	£0	£5,255,823	£376,317	£5,632,140
Total		£17,853,559	£13,048,523	£39,836,483	£1,295,337	£0	£11,561,140	£0	£3,293,022	£10,933,205	£1,842,983	£41,015,544		£5,630,728	

Overdraft interest is charged at 3% over interest earned

ERNST & YOUNG

Analysis of Future Cash flow - uses GW figures at 31 12 91 plus paid in the year

Basis B

1.93 Exchange Rate

All figures in £000's

	Return on Cash 7.16% Opening Cash	Reinsurance Accruals Reduction	Claims Paid: 1987 &prior Short Tail	Long Tail	Alicia	Cat 24	87 J	Pollution	Asbestos	1988 Short Tail	Long Tail	T&D Recovery	Cash Before Interest	Interest	Closing Cash
1991	£61,280,924	£2,168,728	£1,848,083	£5,628,089	£0	£0	£6,014,043	£35,673	£230,866	£1,831,063	£449,010	£1,036,269	£48,449,094	£4,015,258	£52,464,353
1992	£52,464,353	£1,390,351	£3,065,584	£8,196,251	£0	£0	£3,398,579	£71,346	£265,423	£1,732,483	£1,257,216	£1,036,269	£36,904,091	£3,259,655	£40,163,746
1993	£40,163,746	£2,096,545	£3,065,584	£7,488,838	£518,135	£0	£3,398,579	£142,692	£318,706	£866,242	£898,011	£2,668,394	£28,231,898	£2,532,302	£30,764,200
1994	£30,764,200	£2,137,729	£1,532,792	£6,869,425	£518,135	£0	£2,605,726	£285,303	£318,706	£866,242	£898,011	£8,554,404	£27,561,993	£2,167,913	£29,729,906
1995	£29,729,906	£2,178,180	£1,532,792	£5,306,281	£518,135	£0	£0	£570,686	£382,249	£433,121	£898,011	£1,554,404	£23,821,215	£2,000,114	£25,821,329
1996	£25,821,329	£1,705,546	£0	£3,551,903	£518,135	£0	£0	£513,594	£382,249	£433,121	£898,011	£10,621,762	£31,851,624	£2,123,074	£33,974,697
1997	£33,974,697	£1,091,026	£0	£3,662,734	£518,135	£0	£0	£410,875	£458,699	£0	£898,011	£2,072,539	£31,189,808	£2,374,347	£33,564,155
1998	£33,564,155	£1,010,017	£0	£3,389,540	£0	£0	£0	£328,700	£458,699	£0	£538,807	£2,072,539	£31,930,965	£2,382,520	£34,313,485
1999	£34,313,485	£892,318	£0	£3,508,395	£0	£0	£0	£262,928	£550,373	£0	£179,602	£11,398,964	£42,103,469	£2,763,403	£44,866,872
2000	£44,866,872	£773,505	£0	£3,428,199	£0	£0	£0	£210,374	£440,497	£0	£404,105	£0	£41,157,202	£3,110,128	£44,267,330
2001	£44,267,330	£723,141	£0	£2,894,466	£0	£0	£0	£168,331	£352,463	£0	£314,304	£0	£41,260,906	£3,090,107	£44,351,013
2002	£44,351,013	£539,864	£0	£2,779,009	£0	£0	£0	£134,649	£281,971	£0	£359,204	£0	£41,336,044	£3,089,124	£44,425,167
2003	£44,425,167	£405,077	£0	£2,625,056	£0	£0	£0	£107,735	£225,378	£0	£359,204	£0	£41,512,871	£3,093,136	£44,606,007
2004	£44,606,007	£296,147	£0	£2,392,062	£0	£0	£0	£86,156	£180,369	£0	£179,602	£0	£42,063,965	£3,115,143	£45,179,108
2005	£45,179,108	£195,865	£0	£2,041,949	£0	£0	£0	£68,957	£144,295	£0	£315,259	£0	£42,804,514	£3,158,416	£45,962,930
2006	£45,962,930	£115,174	£0	£1,476,889	£0	£0	£0	£55,181	£115,502	£0	£315,259	£0	£44,115,273	£3,230,138	£47,345,410
2007	£47,345,410	£50,306	£0	£510,223	£0	£0	£0	£44,113	£92,335	£0	£315,259	£0	£46,433,786	£3,359,691	£49,793,477
2008	£49,793,477	£36,343	£0	£146,545	£0	£0	£0	£35,275	£73,802	£0	£315,259	£0	£49,258,938	£3,547,731	£52,806,669
2009	£52,806,669	£18,507	£0	£0	£0	£0	£0	£28,268	£59,240	£0	£244,565	£0	£52,493,104	£3,770,600	£56,263,703
2010	£56,263,703	£14,850	£0	£0	£0	£0	£0	£22,614	£8,605	£0	£0	£0	£56,247,335	£4,028,446	£60,275,781
2011	£60,275,781	£4,486	£0	£0	£0	£0	£0	£18,091	£0	£0	£0	£0	£60,262,176	£4,315,431	£64,577,606
2012	£64,577,606	£2,276	£0	£0	£0	£0	£0	£14,473	£0	£0	£0	£0	£64,565,409	£4,623,410	£69,188,820
2013	£69,188,820	£1,821	£0	£0	£0	£0	£0	£11,578	£0	£0	£0	£0	£69,179,062	£4,953,643	£74,132,705
2014 +	£74,132,705	£5,757	£0	£0	£0	£0	£0	£34,173	£0	£0	£0	£0	£74,104,289	£5,307,112	£79,411,401
Total		£17,853,559	£11,044,836	£65,895,854	£2,590,674	£0	£15,416,926	£3,661,767	£5,340,428	£6,162,271	£10,036,712	£41,015,544		£79,410,842	

Overdraft interest charged at 3% over interest earned

Assets Basis A, Cash outflow Basis B

Basis C

All figures in £000's

1.93 Exchange Rate

	Return on Cash 7.16% Opening Cash	Reinsurance Accruals Reduction	1987 & Prior Short Tail	Long Tail	Allicia	Cat 24	87J	Pollution	Asbestos	1988 Short Tail	Long Tail	T&D Recovery	Cash Before Interest	Interest	Closing Cash
1991	£22,943,000	£2,168,728	£1,848,083	£5,628,089	£0	£0	£6,014,043	£35,673	£230,866	£1,831,063	£449,010	£1,036,269	£10,111,170	£1,270,263	£11,381,433
1992	£11,381,433	£1,390,351	£3,065,584	£8,196,251	£0	£0	£3,398,579	£71,346	£265,423	£1,732,483	£1,257,216	£1,036,269	(£4,178,829)	£264,450	(£3,914,379)
1993	(£3,914,379)	£2,096,545	£3,065,584	£7,488,838	£518,135	£0	£3,398,579	£142,692	£318,706	£866,242	£898,011	£2,668,394	(£15,846,227)	(£880,098)	(£16,726,325)
1994	(£16,726,325)	£2,137,729	£1,532,792	£6,869,425	£518,135	£0	£2,605,726	£285,303	£318,706	£866,242	£898,011	£8,554,404	(£19,928,532)	(£1,746,909)	(£21,675,441)
1995	(£21,675,441)	£2,178,180	£1,532,792	£5,306,281	£518,135	£0	£0	£570,686	£382,249	£433,121	£898,011	£1,554,404	(£27,584,132)	(£2,381,799)	(£29,965,931)
1996	(£29,965,931)	£1,705,546	£0	£3,551,903	£518,135	£0	£0	£513,594	£382,249	£433,121	£898,011	£10,621,762	(£23,935,636)	(£2,656,872)	(£26,592,508)
1997	(£26,592,508)	£1,091,026	£0	£3,662,734	£518,135	£0	£0	£410,875	£458,699	£0	£898,011	£2,072,539	(£29,377,397)	(£2,783,085)	(£32,160,482)
1998	(£32,160,482)	£1,010,017	£0	£3,389,540	£0	£0	£0	£328,700	£458,699	£0	£538,807	£2,072,539	(£33,793,671)	(£3,295,915)	(£37,089,586)
1999	(£37,089,586)	£892,318	£0	£3,508,395	£0	£0	£0	£262,928	£550,373	£0	£179,602	£11,398,964	(£29,299,602)	(£3,335,716)	(£32,635,318)
2000	(£32,635,318)	£773,505	£0	£3,428,199	£0	£0	£0	£210,374	£440,497	£0	£404,105	£0	(£36,344,988)	(£3,459,397)	(£39,804,385)
2001	(£39,804,385)	£723,141	£0	£2,894,466	£0	£0	£0	£168,331	£352,463	£0	£314,304	£0	(£42,810,809)	(£4,155,534)	(£46,966,343)
2002	(£46,966,343)	£539,864	£0	£2,779,009	£0	£0	£0	£134,649	£281,971	£0	£359,204	£0	(£49,981,312)	(£4,893,148)	(£54,874,461)
2003	(£54,874,461)	£405,077	£0	£2,625,056	£0	£0	£0	£107,735	£225,378	£0	£359,204	£0	(£57,786,757)	(£5,698,536)	(£63,485,293)
2004	(£63,485,293)	£296,147	£0	£2,392,062	£0	£0	£0	£86,156	£180,369	£0	£179,602	£0	(£66,027,336)	(£6,560,710)	(£72,588,046)
2005	(£72,588,046)	£195,865	£0	£2,041,949	£0	£0	£0	£68,957	£144,295	£0	£315,259	£0	(£74,962,640)	(£7,482,467)	(£82,445,107)
2006	(£82,445,107)	£115,174	£0	£1,476,889	£0	£0	£0	£55,181	£115,502	£0	£315,259	£0	(£84,292,765)	(£8,462,021)	(£92,754,786)
2007	(£92,754,786)	£50,306	£0	£510,223	£0	£0	£0	£44,113	£92,335	£0	£315,259	£0	(£93,666,411)	(£9,466,459)	(£103,132,870)
2008	(£103,132,870)	£36,343	£0	£146,545	£0	£0	£0	£35,275	£73,802	£0	£315,259	£0	(£103,667,409)	(£10,502,907)	(£114,170,315)
2009	(£114,170,315)	£18,507	£0	£0	£0	£0	£0	£28,268	£59,240	£0	£244,565	£0	(£114,483,881)	(£11,614,285)	(£126,098,166)
2010	(£126,098,166)	£14,850	£0	£0	£0	£0	£0	£22,614	£8,605	£0	£0	£0	(£126,114,535)	(£12,811,612)	(£138,926,147)
2011	(£138,926,147)	£4,486	£0	£0	£0	£0	£0	£18,091	£0	£0	£0	£0	(£138,939,752)	(£14,115,338)	(£153,055,090)
2012	(£153,055,090)	£2,276	£0	£0	£0	£0	£0	£14,473	£0	£0	£0	£0	(£153,067,287)	(£15,550,883)	(£168,618,170)
2013	(£168,618,170)	£1,821	£0	£0	£0	£0	£0	£11,578	£0	£0	£0	£0	(£168,627,928)	(£17,131,995)	(£185,759,923)
2014 +	(£185,759,923)	£5,757	£0	£0	£0	£0	£0	£34,173	£0	£0	£0	£0	(£185,788,338)	(£18,874,317)	(£204,662,656)
Total			£11,044,836	£65,895,854	£2,590,674	£0	£15,416,926	£3,661,767	£5,340,428	£6,162,271	£10,036,712	£41,015,544			

Overdraft interest is charged at 3% over interest earned

30-03-1992 17:39 LITTLEJOHN FRAZER 071 537 3915 P.02

SYNDICATE 290 Recd 2/4/16

POINTS TO KNOW WHEN CONSIDERING A TIME & DISTANCE POLICY EXCESS OF US $17,150,000.

				EXCESS	$ 17,150,000
SETTLED 1984	£989,695	+ US$766,185	+ CAN$100,412	=	1,989,866
SETTLED 1985	£271,852	+ US$ 59,023	+ (CAN$ 2,342)	=	451,527
				BALANCE	US$ 14,708,607
ASSUME ALL STERLING NOTES (£3,095,363) SETTLED				=	4,488,276
ASSUME ALL CANADIAN DOLLARS (C$652,727) SETTLED				=	468,542
				RESIDUE	US$ 9,751,789

IF FIRST PAYMENT 31.3.1992, AVERAGE PER ANNUM = US$1,625,298

ON US $ SECTION OF ~~[illegible]~~ SYNDICATE ONLY. (N.B. 1984 SETTLEMENTS INCLUDE £500 000 payment on 164 STOP LOSS & US$ * ON 295 STOP LOSS). ON TOTAL PREMIUM TO DATE OF US$42,906,385 THIS SETTLEMENT REPRESENTS AN AVERAGE OF 3.79% PER ANNUM. WE CANNOT PRODUCE ANY FIGURES THAT SHOW THAT WE WILL GET ANYWHERE NEAR THIS SETTLEMENT FIGURE. 1975 and 1976 ACCOUNTS INDIVIDUALLY ARE IN EXCESS OF THIS, BUT THEIR COMBINED OUTSTANDINGS ONLY TOTAL US$775,133.

* PAID £239,194 = US$3,187,363 + ~~CAN~~ CAN$124,108 TOTAL.

RECOVERED US$ 2,393,447... IN NOV 84

PAID £132,641 - CAN$70 572 + US$ 2,120 072 IN MAY '84

BALANCE PAID ??

AGGREGATE STOP LOSS as at 31/12/87 27/04/88

To show that the policy retention of US$10,000,000 will not be erroded ahead of the Outstanding Claims Advance dates fixed in the schedule, a triangulation of the Syndicate's paid loss ratios has been created from the Auditors Examination sheets from which has been calculated the average settlement (expressed as a percentage of premium income) for each year following its close. For the purposes of this exercise it has been assumed that only the US dollar account will affect the possible incursions into the aggregate stop loss protections.

Attachment "A" shows the paid loss ratio triangulation for the US dollar account, and the aggregate of the percentages for each year of account between the stepped lines applied to the premium income for the year of account in question appears in column (b) of attachment "B". The total of column (b) is the projected settlement for US dollars for years 1988/89/90 inclusive which shows that $4,140,053 could have been expended of the $10,000,000 retention prior to the first Outstanding Claims Advance of $2,000,000 becoming payable on 15th May 1991. Column (c) of attachment "B" adds a further year of extrapolated settlements as does columns (d) and (e) in order to show that the repayment schedule of the policy is well in advance of the Syndicates possible expenditure. The current projections suggest that the aggregate retention of US$10,000,000 will not be breached before the end of 1993.

From this exercise it can be seen that the policy retention of US$10,000,000 may not be breached until the end of 1993 which is well after the first repayment date in May 1991. Quod erat demonstrandum.

"A"

290 US $

		74	75	76	77	78	79	80	81	82	63	84	85
NET P.I.		496	1397	963	2246	2243	3986	6000	7357	7737	10473	13742	23044
P.L.R. %	4	(9.22)	13.99	(8.99)	0.89	1.75	(13.17)	31.31	2.40	1.28	0.84	2.88	2.18
	5	7.83	0.78	7.33	(29.71)	(16.07)	(6.37)	5.25	1.74	11.51	(7.05)	(2.48)	(2.48)
	6	(2.77)	4.30	24.54	(5.13)	10.97	5.05	(4.82)	1.17	2.34	3.96	3.96	3.96
	7	(2.06)	3.17	6.54	3.16	(1.58)	(4.47)	4.85	(0.11)	1.19	1.19	1.19	1.19
	8	(4.94)	4.84	2.65	(2.43)	4.30	(4.07)	(6.01)	(0.31)	(0.81)	(0.81)	(0.81)	(0.81)
	9	1.86	1.33	12.74	2.08	17.85	0.06	5.99	5.99	5.99	5.99	5.99	5.99
	10	(0.22)	2.54	7.23	0.74	2.82	2.66	2.66	2.66	2.66	2.66	2.66	2.66
	11	0.97	5.15	5.69	1.62	3.36	3.36	3.36	3.36	3.36	3.36	3.36	3.36
	12	4.41	3.71	1.44	3.19	3.19	3.19	3.19	3.19	3.19	3.19	3.19	3.19
	13	4.84	(3.78)	0.53	0.53	0.53	0.53	0.53	0.53	0.53	0.53	0.53	0.53
	14	1.38	1.38	1.38	1.38	1.38	1.38	1.28	1.38	1.38	1.38	1.38	1.38
% PROJECTION			1.38	1.91	5.10	8.46	11.12	17.11	16.30	17.49	21.45	18.97	21.15
		1.38	1.38	1.91	5.10	7.08	9.21	12.01	7.84	6.37	4.34	2.67	3.66

1

290 £

EXTRACTED FROM "LITTLEJOHN" SUMMARY SHEETS

		74	75	76	77	78	79	80	81	82	83	84	85
NET P.I.		79	329	341	336	611	910	1200	1439	1366	1720	3016	4114
P.L.R. %													
	4	30.03	0.23	(14.02)	(8.65)	7.04	8.47	8.25	15.13	5.86	22.56	2.72	7.06
	5	(2.59)	(14.78)	(36.01)	(31.10)	(1.85)	7.57	8.83	5.81	7.79	23.36	(3.30)	(3.30)
	6	6.79	1.36	2.61	(22.62)	0.51	31.97	5.72	10.84	(2.74)	3.83	3.83	2.83
	7	(21.06)	3.10	(1.92)	3.55	32.21	2.21	2.40	(3.17)	2.17	2.17	2.17	2.17
	8	(30.89)	(4.36)	1.85	50.63	1.80	5.94	0.03	3.57	3.57	3.57	3.57	3.57
	9	(6.63)	8.10	2.97	(0.66)	(0.88)	4.65	1.26	1.26	1.26	1.26	1.26	1.26
	10	(6.13)	0.48	1.26	(2.32)	0.88	(1.17)	(1.17)	(1.17)	(1.17)	(1.17)	(1.17)	(1.17)
	11	(4.50)	2.04	7.15	1.54	1.56	1.56	1.56	1.56	1.56	1.56	1.56	1.56
	12	(0.41)	3.51	3.89	2.33	2.33	2.33	2.33	2.33	2.33	2.33	2.33	2.33
	13	1.48	6.21	3.85	3.85	3.85	3.85	3.85	3.85	3.85	3.85	3.85	3.85
	14	(0.75)	(0.75)	(0.75)	(0.75)	(0.75)	(0.75)	(0.75)	(0.75)	(0.75)	(0.75)	(0.75)	(0.75)
% PROJECTION			(0.75)	3.10	5.43	6.99	5.82	7.08	10.65	12.82	16.65	13.35	20.41

290 CAN $

	74	75	76	77	78	79	80	81	82	83	84	65
NET P.I.	9	33	127	54	62	108	154	342	232	270	344	
P.L.R. %												
4	(9.15)	(11.97)	1.73	(7.13)	(24.94)	34.83	4.45	26.40	(4.05)	67.73	(26.71)	3.74
5	2.78	27.57	(0.84)	(34.15)	(8.01)	6.15	(2.47)	0.78	49.48	12.48	5.38	5.38
6	1.90	25.01	7.63	(9.42)	(3.82)	0.47	1.80	4.06	3.10	3.41	3.41	3.41
7	(5.54)	(1.53)	0.33	0.99	14.45	(0.70)	1.54	0.79	1.29	1.29	1.29	1.29
8	1.11	15.04	(0.08)	(0.98)	0.34	0.59	0.52	2.36	2.36	2.36	2.36	2.36
9	0.26	8.42	(0.02)	3.52	0.42	9.24	3.64	3.64	3.64	3.64	3.64	3.64
10	55.53	15.01	0.10	0.18	0.33	14.23	14.23	14.23	14.23	14.23	14.23	14.23
11	(0.15)	0.49	0.01	0.42	0.19	0.19	0.19	0.19	0.19	0.19	0.19	0.19
12	0.13	0.15	0.05	0.11	0.11	0.11	0.11	0.11	0.11	0.11	0.11	0.11
13	0.91	0.03	0.47	0.47	0.47	0.47	0.47	0.47	0.47	0.47	0.47	0.47
14	(5.73)	(5.73)	(5.73)	(5.73)	(5.73)	(5.73)	(5.73)	(5.73)	(5.73)	(5.73)	(5.73)	(5.73)
% PROJECTION		(5.73)	(5.26)	(5.15)	(4.96)	9.27	12.91	15.27	16.56	19.97	25.35	29.09

"B"

ASSUME US $ ONLY COVERED

		(a)		(b) → P.L.R.	(c) %	(d)	(e)	PROJECTED AT
		US $	$	3 YEARS	+ 1	+ 1	+ 1	31.12.93
85 a/c	P.I.	23,043,678		843,399	274,220	(186,654)	1,380,316	2,311,281
84 a/c	P.I.	13,741,800		366,906	(111,309)	823,134	365,532	1,444,263
83 a/c	P.I.	10,472,845		454,521	627,323	278,578	351,888	1,712,310
82 a/c	P.I.	7,737,094		492,853	205,807	259,966	246,813	1,205,439
81 a/c	P.I.	7,356,565		576,756	247,181	234,674	38,990	1,097,601
80 a/c	P.I.	6,000,128		720,615	191,404	31,801	82,802	1,026,622
79 a/c	P.I.	3,986,089		367,119	21,126	55,008	55,008	498,261
78 a/c	P.I.	2,243,072		158,809	30,954	30,954	30,954	251,671
77 a/c	P.I.	2,246,267		114,560	30,999	30,999	30,999	207,557
76 a/c	P.I.	963,415		18,401	13,295	13,295	13,295	58,286
75 a/c	P.I.	1,396,665		19,274	19,274	19,274	19,274	77,096
74 a/c	P.I.	495,621		6,840	6,840	6,840	6,840	27,360
			TOTAL	4,140,053	1,557,114	1,597,869	2,622,711	9,917,747
			1991		5,697,167			
			1992			7,295,036		
			1993				9,917,747	

AGG. STOP LOSS O.C.A. PROVISION	NIL	2,000,000	2,000,000	5,150,000
BALANCE TO $10m RETENTION	5,859,947	6,302,833	6,704,964	9,232,253
INCREASE IN PROJECTED SETTLEMENT REQUIRED TO BREACH $10m.	242 %	270 % (211%)	303 % (192%)	1303 % (193%)

SYNDICATE 164

Original Broker	Ref	Replacement Broker (where applicable)	Ref	SFA	Reinsurer	Ref	Timing Risk Ref/Linkage
Fielding Juggins Money & Stewart Ltd	TG86G135				Outhwaite		TG86G135
Fielding Juggins Money & Stewart Ltd	T86G123	Gough & Sheldon		53	Pinnacle	86010	
Fielding Juggins Money & Stewart Ltd	T87G184				Manufacturers P&C Ltd Canada		
Fielding Juggins Money & Stewart Ltd	T86G184				Manufacturers P&C Ltd Canada		
Fielding Juggins Money & Stewart Ltd	T88G184				Manufacturers P&C Ltd Canada		
Fielding Juggins Money & Stewart Ltd	T89G184				Manufacturers Life Re		
Golding Stewart Wrightson Ltd	87DPOO111	Heath	875478	63	Pinnacle	86025	84MX01774 84MX01775 84MX01776 84MX01780/ P84011
Heath	KX6107T00			63	Pinnacle	91033	
Heath	DA5552N00				Pinnacle	87024B	
Gough & Sheldon Ltd	TG86G054			44	Pinnacle	85040	
Gough & Sheldon Ltd	QBG123M			53	Pinnacle	91032	

SYNDICATE 290

Original Broker	Ref	Replacement Broker (where applicable)	Ref	SFA	Reinsurer	Ref	Timing Risk Ref/Linkage
Heath	DA6241ROO			83	Pinnacle	89023	DA6159R00 DA5551N00
Heath	KX6078TOO			91	Pinnacle	91016	
Heath	DA6151ROO			80	Pinnacle	89007	
Heath	KX6108TOO			80	Pinnacle	91034	
Heath	DA5955POO			LOC	Pinnacle	88018	
Heath	KX6077TOO			90	Pinnacle	91014	
Heath	DA5896POO				Syndicate 727		
Heath	DA6444SOO			86	Pinnacle	90017	
Heath	DA6094ROO			78	Pinnacle	89002	
Golding Stewart Wrightson Limited	84MX01776	Heath	875474	9	Pinnacle	84010	84MX01774 84MX01775 875478
Golding Stewart Wrightson Limited	86DP00110	Heath	875477	62	Pinnacle	86023	85MX01881
Heath	KX6076TOO			89	Pinacle	91013	
Heath	DA5852POO			74	Pinnacle	88001	
Heath	DA6159ROO			71	Pinnacle	89019	DA5551N00 FA6241R00

SYNDICATE 290

Original Broker	Ref	Replacement Broker (where applicable)	Ref	SFA	Reinsurer	Ref	Timing Risk Ref/Linkage
Golding Stewart Wrightson Limited	86DPOO1O9	Heath	875479	61	Pinnacle	86022	85MX01881 DA5551N00
Heath	DA5551NOO			71	Pinnacle	87024A	84MX01780/ P84011 DA6159R00 DA6241R00 86DP00109 85MX01881
Heath	KX6079TOO			92	Pinnacle	91017	
Golding Stewart Wrightson					Pinnacle	85027	
Fielding & Partners Limited	854702			24	Pinnacle	85007	
Golding Stewart Wrightson Limited	85MX01881				Pinnacle		86DP00110 86DP00109

SYNDICATE 295

Original Broker	Ref	Replacement Broker (where applicable)	Ref	SFA	Reinsurer	Ref	Timing Risk Ref/Linkage
Golding Stewart Wrightson Limited	83MX01598	Heath	875199		Pinnacle	83080	83MX01590/ P83079
Golding Collins Limited	83MX01590	Heath	875198	LOC	Pinnacle	83079	83ME01583/ 83ME01584
Alexander Howden Insurance Brokers Limited	NW8202360			LOC	First State		)) Tilling) Alder
Alexander Howden Insurance Brokers Limited	NW8202362			LOC	First State		) 290)
Heath	KX6105T00				Pinnacle	91031	83ME01583 83ME01584

SYNDICATE 298

Original Broker	Ref	Replacement Broker (where applicable)	Ref	SFA	Reinsurer	Ref	Timing Risk Ref/Linkage
Frizzell International Limited	882534				100% Lloyd's		
Frizzell International Limited	892593				100% Lloyd's		
Frizzell International Limited	892626				100% Lloyd's		
Frizzell International Limited	892627				100% Lloyd's		

SYNDICATE 299/297

Original Broker	Ref	Replacement Broker (where applicable)	Ref	SFA	Reinsurer	Ref	Timing Risk Ref/Linkage
Golding Stewart Wrightson Limited	85MX01873				Pinnacle	85023	

SYNDICATE 387

Original Broker	Ref	Replacement Broker (where applicable)	Ref	SFA	Reinsurer	Ref	Timing Risk Ref/Linkage
Fielding & Partners	875400			LOC	Pinnacle	87004	

SYNDICATE 514

Original Broker	Ref	Replacement Broker (where applicable)	Ref	SFA	Reinsurer	Ref	Timing Risk Ref/Linkage
Fielding & Partners	875464				Pinnacle	87018	875465

EXTRACT FROM CRO MEMORANDUM DATED 3/12/92

TO: Hugh Robertson

FROM: Angus Scrimgeour

RE: Information Schedules

As agreed at our meeting on Monday, I am writing to confirm that I would like you to take responsibility for assembling the following information:

...

2. Information relating to Time and Distance Policies:

   I expressed to you my concern about the delays being experienced by RISL in producing their report on Time and Distance policies; I have no doubt that you will personally be frustrated by this as well.

   I understand from RISL that the delay has been caused in part by their inability to identify and review all the relevant information.

   The best way of resolving this is for you to produce a complete list of inward and outward policies (including intra GW Syndicate policies and time risk reinsurance) indicating the policy/reference numbers, amounts, security, counter parties, and commutations. Please could you also identify where the files/individual documents are held.

   Hopefully this will satisfy RISL and help to put this issue to rest.

EXTRACT FROM MR ROBERTSON'S UNDATED REPLY

A. SCRIMGEOUR TASK from memorandum 3/12/92

...

2/. Information relating to Time and Distance Policies

Policy DA5896P00 attached - note mismatch of enclosures - copies taken - previous documents last seen with NBR

Details of all T&D policies are with RISL - they went to Bermuda and obtained all that was available - a lot of their missing detail relates to reinsurances effected with Syndicates not within the GW organisation.

...

RATE OF RETURN

Syndicate 387 - Policy 87004

Transaction Type	Date	Policy Rate (%)	Market Rate (%)
Inception	19/01/87	7.22	10.77
Amendment 1	06/01/88	7.73	8.03
Amendment 2	31/12/88	10.24	11.75
Amendment 3	25/10/89	11.46	12.64
Amendment 4	29/12/89	12.48	14.38
Amendment 5	31/12/90	9.25	12.33

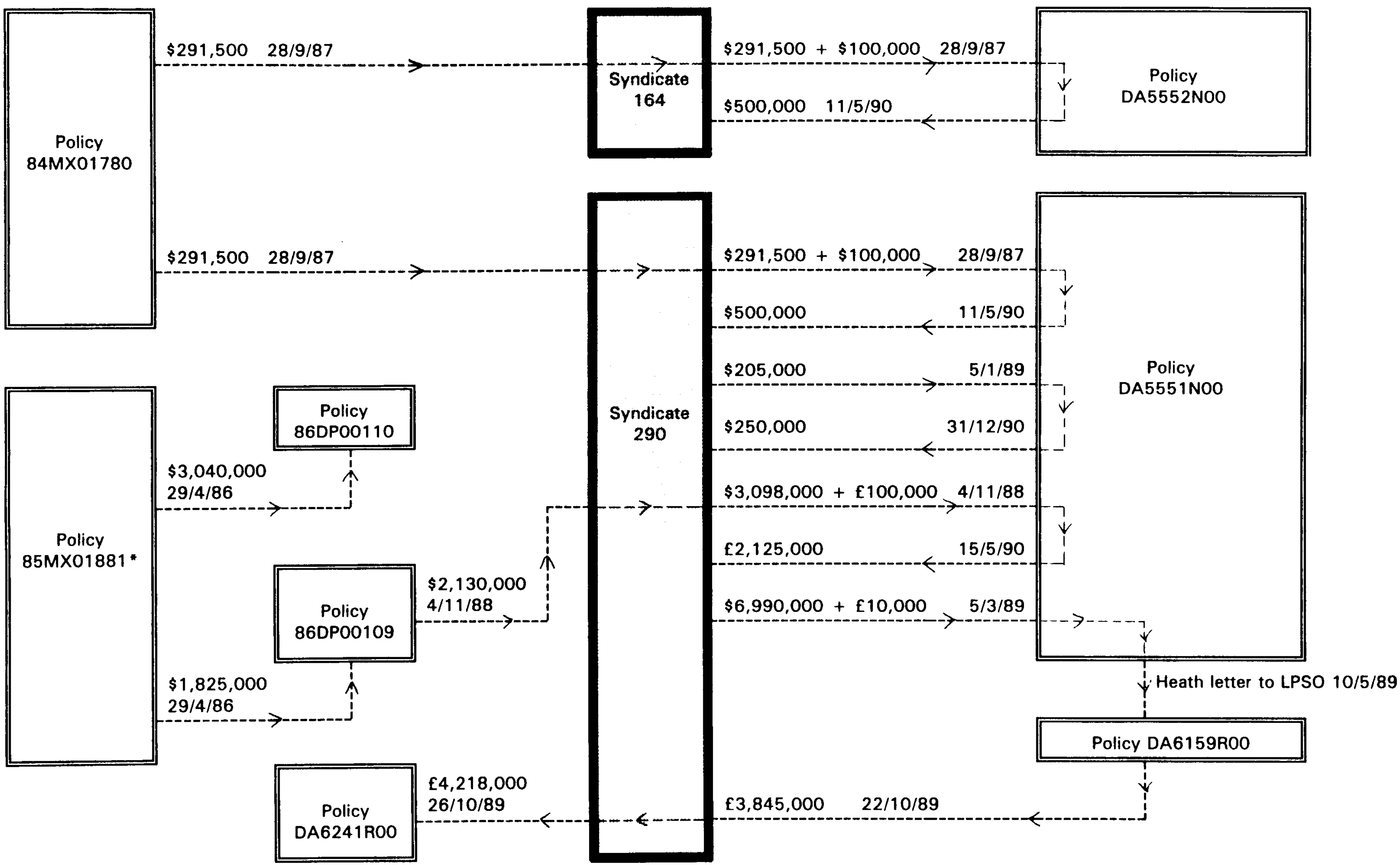
1. Policy Rate represents the compound interest rate from policy inception (or amendment) to maturity.
2. Market Rate represents the compound interest rate achieved on securities purchased by Pinnacle in the open market.

Syndicate 290 - Policy 86023

Transaction Type	Date	Policy Rate (%)	Market Rate (%)
Inception	29/04/86	7.89	9.29
Amendment 1	26/06/87	6.72	8.85
Amendment 2	28/03/88	7.99	8.89
Amendment 3	15/09/89	7.27	8.29
Policy return on cancellation	02/04/91	4.88	8.54

1. Policy Rate represents the compound interest rate from policy inception (or amendment) to maturity.
2. Market Rate represents the compound interest rate achieved on securities purchased by Pinnacle in the open market.

FLOW OF FUNDS ARISING FROM COMMUTATIONS



* Net proceeds of $3,755,000 used towards Policies 86DP00110 and 86DP00109.

PROPORTION OF GROSS RESERVES REPRESENTED BY

TIME AND DISTANCE POLICIES

Syndicate 164

Year End	Closing Year	Gross Reserves £	T&D Content £	RITC £	T&D % of Gross Reserves
31/12/82	1980	9,259,260	3,703,704	5,555,556	40.0
31/12/83	1981	9,294,455	4,137,931	5,156,524	44.5
31/12/84	1982	10,784,002	5,172,414	5,611,588	48.0
31/12/85	1983	12,807,989	9,137,931	3,670,058	71.3
31/12/86	1984	17,112,344	10,304,054	6,808,290	60.2
31/12/87	1985	14,295,150	7,130,655	7,164,495	49.9
31/12/88	1986	16,836,691	6,245,153	10,591,538	37.1
31/12/89	1986 open year	*15,273,720	6,050,868	9,222,852	39.6
31/12/90	1986 open year	*12,596,690	4,792,746	7,803,944	38.0
31/12/91	1986 open year	*25,075,007	4,946,524	20,128,483	19.7
31/12/91	1989 open year	*29,615,173	804,812	28,810,361	2.7

Notes

1. "T&D Content" represents recoveries due under relevant policies in force at the dates given.

* Amount retained to meet all known and unknown outstanding liabilities.

PROPORTION OF GROSS RESERVES REPRESENTED BY

TIME AND DISTANCE POLICIES

Syndicate 290

Year End	Closing Year	Gross Reserves £	T&D Content £	RITC £	T&D % of Gross Reserves
31/12/83	1981	11,831,687	5,620,690	6,210,997	47.5
31/12/84	1982	17,808,756	7,025,862	10,782,894	39.5
31/12/85	1983	19,357,471	9,068,965	10,288,506	46.8
31/12/86	1984	25,423,077	8,885,135	16,537,942	34.9
31/12/87	1985	39,309,990	24,400,031	14,909,959	62.1
31/12/88	1986	53,057,401	33,232,044	19,825,357	62.6
31/12/89	1987	87,327,041	47,776,398	39,550,643	54.7
31/12/90	1988	81,810,690	41,015,544	40,795,146	50.1
31/12/91	1989 open year	*174,958,955	44,245,990	130,712,965	25.3

Notes

1. "T&D Content" represents recoveries due under relevant policies in force at the dates given.

* Amount retained to meet all known and unknown outstanding liabilities.

PROPORTION OF GROSS RESERVES REPRESENTED BY

TIME AND DISTANCE POLICIES

Syndicate 295

Year End	Closing Year	Gross Reserves £	T&D Content £	RITC £	T&D % of Gross Reserves
31/12/81	1979	11,428,381	4,736,842	6,691,539	41.4
31/12/82	1980	25,163,891	15,432,099	9,731,792	61.3
31/12/83	1981	25,627,325	17,241,379	8,385,946	67.3
31/12/84	1982	36,176,899	21,551,724	14,625,175	59.6
31/12/85	1983	25,027,871	17,586,207	7,441,664	70.3
31/12/86	1984	22,031,396	17,229,730	4,801,666	78.2
31/12/87	1985	16,281,145	13,031,915	3,249,230	80.0
31/12/88	1986	12,239,268	9,944,751	2,294,517	81.3
31/12/89	1987	14,097,233	9,449,474	4,647,759	67.0
31/12/90	1988	10,837,460	6,981,275	3,856,185	64.4
31/12/91	1989 open year	*19,985,312	6,245,408	13,739,904	31.2

Notes

1. "T&D Content" represents recoveries due under relevant policies in force at the dates given.

* Amount retained to meet all known and unknown outstanding liabilities.

Market Bulletin

LLOYD'S
LLOYD'S OF LONDON

Telephone 071-623 7100. Facsimile 071-626 2389. Telex 8950741 CLLOYD

One Lime Street, London EC3M 7HA

The Chairman/Senior Partner
G W Run-Off Ltd
5 Lloyd's Avenue
London
EC3N 3DB

UAD0790

RECEIVED
22 FEB 1993

From: Manager, Solvency and Reporting Department

Extension: 5092

Date: 19 February 1993

Reference: SRD/BJM/DW/clb/0163z.59

Subject: FINANCIAL REINSURANCES

Recent pronouncements both in the UK and abroad in respect of the future treatment of financial reinsurances purchased by Lloyd's syndicates have highlighted certain concerns in the Lloyd's market.

In particular, the Department of Trade and Industry's (DTI) guidance to all companies on the disclosure of financial reinsurances in DTI returns legislates against those time and distance policies (T&D's) that do not meet the criterion of transferring timing risk, as defined in the guideline, and indicates that those policies would not constitute reinsurance.

Furthermore, in the US, the Financial Accounting Standards Board has recently issued Financial Accounting Standard 113, which governs the reporting of reinsurance contracts. The Standard requires that premiums paid for contracts that do not meet the definition of reinsurance should be treated as deposits and that no credit for reinsurance recoveries would be possible. The statement provides that the accounting provisions for reinsurance depend on whether the contract is long duration or short duration. Regardless of its form, any transaction that indemnifies an insurer against loss or liability relating to insurance risk shall be accounted for according to the provisions of the statement. Insurance risk is defined as the risk associated with the occurrence of insured events under an insurance contract. Those risks include the uncertainties relating to both the ultimate amount of payments and the timing of those payments. Risks other than those associated with the occurrence of insured events under an insurance contract, such as the risk that investment income will vary from expectations, are not elements of insurance risk. It would appear that some T&D policies might not meet the conditions for reinsurance accounting and hence would be reported using deposit accounting. The Standard is effective for fiscal years beginning after 15 December 1992.

Although neither the Standard nor the DTI guidelines will directly impact on Lloyd's syndicates, they are indicative of the direction in which the UK accounting profession is moving, which will certainly affect Lloyd's in due course. The Institute of Chartered Accountants in England and Wales intend to issue a technical release on financial reinsurance in the first quarter of 1993, however, there is no indication as yet, as to whether FAS 113 principles will be adopted for UK purposes or not.

In addition to the above, the EC directive on the Accounts of Insurance Undertakings, which will be implemented into UK law to be effective from 1 January 1994 prohibits implicit discounting. This will result in financial reinsurance contracts being accounted for on the balance sheet, and so to compensate for this treatment, companies will almost certainly have to discount.

In view of the above, managing agents and underwriters are warned that those reinsurance contracts with a small amount of risk transfer which result in there being no benefit to the ceding syndicate in accounting terms may, in future, be held to be unacceptable.

Any comments or questions on the above should be addressed to David Wharrier (extn 5382).

This market bulletin is being sent to managing agents, underwriters and recognised auditors.

Barbara J. Merry

Barbara J Merry
Manager
Solvency and Reporting Department

UAA

DEPUTY CHAIRMAN

A. W. Higgins

Lloyd's

Lime Street, London EC3M 7HL

Telephone: 01-623 7100

TELEGRAMS : LLOYDS LONDONEC3
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STRICTLY PRIVATE & CONFIDENTIAL

22nd May 1981

E. Ryan, Esq.,
Underwriter
Gooda, Walker Limited
Lloyd's.

Dear Mr Ryan,

Aggregate Excess Reinsurance of Syndicate 295

With reference to various discussions which have been taking place between yourself and the Audit Department, I write to confirm that you may effect the above reinsurances in respect of the 1978 Account of Syndicate 295 provided the following points are observed:-

1. The contract terms should be in accordance with the Cover Notes supplied by Bellew, Parry and Raven Limited and F.Bolton & Company Limited.

2. The premium payable for the policies should be computed at "arms length" (i.e the Policy to be rated by a Leading Underwriter unconnected with the Gooda, Walker Agency).

3. There should be no retrocession of the liability from such Leading Underwriter back to any Syndicate managed by Gooda, Walker.

From the enquiries made by the Audit Department it is understood that the reinsurances in question comply with the above and have the full support of your Auditors.

I also understand that the "Committee of Management" which was set up last year has been advised that a reinsurance of Syndicate 295 is being arranged and Members of the Committee have confirmed that they would be in agreement with such a reinsurance. I will leave it to you to decide whether the Committee of Management should be given full details of the policies which have been effected.

continued..............

I should be grateful if you would kindly acknowledge this letter indicating that the above conditions have been complied with and confirming that the interests of Names on Syndicate 290 will not be prejudiced by accepting a large proportion of these reinsurances.

Yours sincerely,

Alec Higgins

UAA/KER/GMD

ER/AM

26th May, 1981

A.W. Higgins, Esq.,
Deputy Chairman,
Lloyd's.

Dear Mr. Higgins,

Thank you for your letter of the 22nd inst.

I can confirm that the three conditions stated in your letter have been complied with.

So far as the "Committee of Management" is concerned, this Committee, as you may be aware, was set up as a liaison and disemenation of information instrument between the Gooda Walker Agency and our Agents as a result of the charges laid against Mr. Walker and their sole concern is in this area. However, as the Committee are all Agents involved with our Group Mr. A.W. Gooda and I have made a point of discussing our situation with them personally.

I can also confirm that in my opinion Syndicate 290 has in no way been prejudiced by accepting a large proportion of the relevant reinsurances.

Yours sincerely,

E. RYAN

Pinnacle

Pinnacle Reinsurance Company Limited

Barclays International Building
Church Street, P.O. Box HM 1801
Hamilton HM HX, Bermuda
Telephone: (809) 292-8600
Telex: 3572 ASSUR BA
Facsimile: (809) 295-5019

FACSIMILE

TO: Jeff Wrightman
Heath Re Broking
London

DATE: 4th November, 1991

FROM: Bruce Swann

RE: D.J. Walker Syndicate 290

Carmel asked me whether our files contain any written communication, between Pinnacle and the syndicates, with respect to the syndicate 290 restructuring which took place at the end of March for effect 2nd April.

The answer is that there are no exchanges of written correspondence directly between Pinnacle and the syndicate, the only written correspondence is between your firm and Pinnacle confirming the restructuring and documenting it into slip endorsements and addenda.

Communication between Pinnacle and the syndicate was verbal.

You asked me to set out our understanding of the purpose behind the transaction.

It was explained to us by the syndicate that they were experiencing a severe cash flow deficit. Since the syndicate had several Time & Distance policies with us, could we find a way to lend them money against the present value of underlying assets so that names would not need to be called upon for this purpose?

We thought about this request for a day or two and concluded that, for a variety of reasons, we could not lend the syndicate money. However, we explained to the syndicate that there might be a way to achieve a similar result. This would involve the cancellation and commutation of certain existing Time & Distance policies for an agreed sum in cash, to be paid to the syndicate on commutation, (which occurred on 2nd April), and the simultaneous writing of new Time and Distance policies with a premium payment deferred until cash flow was expected to be positive again. (In the event the deferred premium was scheduled to be paid on 5th August 1991 and was so paid). The syndicate decided that they would be interested in receiving from us a firm proposal along the lines suggested above. We made them an offer and they accepted it. All the above was done by verbal communication and the final details were agreed and accepted late one evening London time. At that point your firm was advised in writing of the full terms, and the paperwork evidencing the transaction was completed.

I believe the foregoing sets out the sequence of events and rationale in a lucid manner.

Kind regards,

Bruce Swann

001137

SYNDICATE 290

ANALYSIS OF DATA

INDEX

PARAMETERS

CURRENCY RATES OF EXCHANGE TO DOLLARS

£ STERLING

YEAR	1976	1977	1978	1979	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990
£ STERLING	1.70	1.92	2.04	2.22	2.39	1.91	1.62	1.45	1.16	1.45	1.48	1.88	1.81	1.61	1.93

Sterling to US $

3

US$ ACCOUNT

YEAR	1976	1977	1978	1979	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990
US $	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00

4

CAN $ ACCOUNT

YEAR	1976	1977	1978	1979	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990
CAN $	0.99	0.91	0.84	0.86	0.84	0.85	0.81	0.80	0.76	0.72	0.72	0.77	0.84	0.86	0.86

Can $ to US $

5

£ STERLING ACCOUNT IN US $

SYN 290 CATEGORY NETT INCURRED LOSSES

	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17
1974	-8216	17146	-7314	-12348	-14391	-74636	-80209	-94327	-103694	-102449	-104348	-75072	-78958	-100836	-108906
1975	320431	290468	244573	240702	214541	211895	239321	226938	246503	310991	422979	399609	372342	382376	0
1976	167294	57447	-44290	-59139	-88105	-115096	-143044	-117303	-44422	54674	-12473	-53190	-22353	0	0
1977	409139	435580	245367	61185	-20580	-20255	23056	57146	86220	145072	58882	86924	0	0	0
1978	746165	827155	811724	791055	712713	733331	730453	792858	810910	802577	882075	0	0	0	0
1979	936588	907452	1139217	1272893	1388783	1555692	1680093	1649314	1576827	1883937	0	0	0	0	0
1980	590451	820575	879629	1008060	1100182	1030653	1191227	1238272	1293042	0	0	0	0	0	0
1981	1708982	1737645	1900338	2390683	2208763	2640197	2483956	2668173	0	0	0	0	0	0	0
1982	1092067	1523442	1825896	2680498	2862168	2966172	3314012	0	0	0	0	0	0	0	0
1983	3585531	4071345	4818796	4969824	5187482	5758708	0	0	0	0	0	0	0	0	0
1984	3975333	4632349	5152226	4989554	5831824	0	0	0	0	0	0	0	0	0	0
1985	4128907	4887064	5070378	6516523	0	0	0	0	0	0	0	0	0	0	0
1986	5424733	6193188	6903611	0	0	0	0	0	0	0	0	0	0	0	0
1987	18044344	29807658	0	0	0	0	0	0	0	0	0	0	0	0	0
1988	6285753	0	0	0	0	0	0	0	0	0	0	0	0	0	0

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CAN $ ACCOUNT

YEAR	1976	1977	1978	1979	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990
CAN $	0.99	0.91	0.84	0.86	0.84	0.85	0.81	0.80	0.76	0.72	0.72	0.77	0.84	0.86	0.86

Can $ to US $

5

£ STERLING ACCOUNT IN US $

SYN 290 CATEGORY NETT INCURRED LOSSES

	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17
1974	-8216	17146	-7314	-12348	-14391	-74636	-80209	-94327	-103694	-102449	-104348	-75072	-78958	-100836	-108906
1975	320431	290468	244573	240702	214541	211895	239321	226938	246503	310991	422979	399609	372342	382376	0
1976	167294	57447	-44290	-59139	-88105	-115096	-143044	-117303	-44422	54674	-12473	-53190	-22353	0	0
1977	409139	435580	245367	61185	-20580	-20255	23056	57146	86220	145072	58882	86924	0	0	0
1978	746165	827155	811724	791055	712713	733331	730453	792858	810910	802577	882075	0	0	0	0
1979	936588	907452	1139217	1272893	1388783	1555692	1680093	1649314	1576827	1883937	0	0	0	0	0
1980	590451	820575	879629	1008060	1100182	1030653	1191227	1238272	1293042	0	0	0	0	0	0
1981	1708982	1737645	1900338	2390683	2208763	2640197	2483956	2668173	0	0	0	0	0	0	0
1982	1092067	1523442	1825896	2680498	2862168	2966172	3314012	0	0	0	0	0	0	0	0
1983	3585531	4071345	4818796	4969824	5187482	5758708	0	0	0	0	0	0	0	0	0
1984	3975333	4632349	5152226	4989554	5831824	0	0	0	0	0	0	0	0	0	0
1985	4128907	4887064	5070378	6516523	0	0	0	0	0	0	0	0	0	0	0
1986	5424733	6193188	6903611	0	0	0	0	0	0	0	0	0	0	0	0
1987	18044344	29807658	0	0	0	0	0	0	0	0	0	0	0	0	0
1988	6285753	0	0	0	0	0	0	0	0	0	0	0	0	0	0

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£ STERLING ACCOUNT IN US $

SYN 290 CATEGORY NOTED OUTSTANDINGS

	DIAG TOT $ (4 - 25)	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17
1974		64,260	44,160	23,860	6,935	44,583	30,856	33,751	26,641	21,388	23,104	19,474	49,869	45,697	26,341	17,609
1975	44,160	71,919	40,425	102,624	88,043	42,396	63,026	51,740	37,532	47,334	94,707	168,264	128,443	77,578	95,116	0
1976	64,284	21,416	17,829	210,009	178,142	159,808	123,660	83,929	103,429	140,166	214,305	151,280	114,943	102,626	0	0
1977	127,388	331,397	427,227	436,515	375,393	276,329	79,426	125,941	171,539	190,878	241,785	176,031	195,455	0	0	0
1978	769,862	388,179	387,000	389,913	364,724	57,945	62,633	67,723	119,955	97,045	89,076	141,560	0	0	0	0
1979	1,074,910	647,882	493,888	625,737	421,882	508,632	595,499	640,294	550,267	449,502	504,087	0	0	0	0	0
1980	1,515,779	212,223	298,871	235,057	263,994	313,513	243,253	303,995	290,806	268,565	0	0	0	0	0	0
1981	1,767,704	760,100	536,277	577,779	837,206	740,917	951,776	879,561	941,423	0	0	0	0	0	0	0
1982	1,473,437	624,360	939,558	1,084,437	2,009,353	1,787,259	1,754,079	2,037,140	0	0	0	0	0	0	0	0
1983	2,652,404	1,835,873	1,747,281	1,739,190	1,497,122	1,320,881	1,555,561	0	0	0	0	0	0	0	0	0
1984	5,071,546	2,265,063	2,767,792	2,890,499	2,402,323	2,813,214	0	0	0	0	0	0	0	0	0	0
1985	8,884,072	2,859,751	3,175,755	3,042,295	3,109,128	0	0	0	0	0	0	0	0	0	0	0
1986	11,820,924	3,918,234	3,609,155	3,654,745	0	0	0	0	0	0	0	0	0	0	0	0
1987	14,232,571	16,655,382	17,100,404	0	0	0	0	0	0	0	0	0	0	0	0	0
1988	32,536,633	3,949,095	0	0	0	0	0	0	0	0	0	0	0	0	0	0
	82,035,672															

CUMULATIVE FORMAT - £ STERLING ACCOUNT IN US

SYN 290 CATEGORY SETTLED LOSSES

	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17
1974	-72476	-27014	-31174	-19284	-58974	-105492	-113960	-120968	-125082	-125554	-123822	-124941	-124655	-127178	-126516
1975	248511	250043	141949	152659	172145	148869	187581	189407	199169	216284	254715	271166	294764	287260	
1976	145878	39618	-254299	-237281	-247913	-238757	-226973	-220731	-184588	-159631	-163752	-168133	-124978		
1977	77742	8353	-191148	-314208	-296910	-99682	-102885	-114393	-104659	-96713	-117149	-108531			
1978	357986	440154	421811	426331	654767	670698	662730	672903	713865	713501	740515				
1979	288706	413564	513479	851012	880151	960194	1039799	1099047	1127325	1379850					
1980	378228	521704	644572	744065	786669	787400	887232	947466	1024477						
1981	948881	1201368	1322559	1553476	1467846	1688422	1604396	1726750							
1982	467707	583884	741458	671145	1074908	1212093	1276872								
1983	1749658	2324064	3079606	3472702	3866601	4203147									
1984	1710270	1864556	2261726	2587231	3018609										
1985	1269156	1711308	2028084	3407395											
1986	1506499	2584034	3248866												
1987	1388961	12707253													
1988	2336659														

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ANNUAL FIGURES - £ STERLING ACCOUNT IN US $

SYN 290 CATEGORY SETTLED LOSSES

	DIAG TOT (4 - 25)	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17
1974		(72,476)	45,462	(4,160)	11,890	(39,691)	(46,518)	(8,468)	(7,008)	(4,115)	(471)	1,732	(1,119)	286	(2,523)	662
1975	45,462	248,511	1,532	(108,094)	10,710	19,486	(23,276)	38,712	1,826	9,763	17,115	38,431	16,451	23,598	(7,504)	
1976	(2,628)	145,878	(106,260)	(293,917)	17,018	(10,632)	9,157	11,783	6,242	36,143	24,957	(4,121)	(4,381)	43,155		
1977	(202,464)	77,742	(69,389)	(199,501)	(123,060)	17,299	197,228	(3,203)	(11,508)	9,735	7,946	(20,436)	8,617			
1978	(392,287)	357,986	82,168	(18,343)	4,520	228,436	15,931	(7,968)	10,173	40,962	(364)	27,014				
1979	(127,347)	288,706	124,858	99,915	337,532	29,139	80,043	79,605	59,249	28,278	252,525					
1980	(58,921)	378,228	143,476	122,868	99,493	42,603	731	99,832	60,233	77,011						
1981	306,070	948,881	252,487	121,191	230,917	(85,630)	220,576	(84,026)	122,354							
1982	1,148,046	467,707	116,177	157,574	(70,314)	403,764	137,185	64,779								
1983	394,262	1,749,658	574,406	755,542	393,096	393,899	336,546									
1984	1,121,056	1,710,270	154,286	397,170	325,505	431,378										
1985	916,397	1,269,156	442,152	316,776	1,379,311											
1986	2,077,362	1,506,499	1,077,534	664,833												
1987	2,251,279	1,388,961	11,318,292													
1988	14,718,973	2,336,659														
	22,195,260															

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ANNUAL FIGURES IN £ STERLING

SYN 290 CATEGORY SETTLED LOSSES

	DIAG TOT $ (4 - 25)	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17
1974		(42,633)	23,678	(2,039)	5,356	(16,607)	(24,355)	(5,227)	(4,833)	(3,547)	(325)	1,170	(595)	158	(1,567)	343
1975	45,462	129,433	751	(48,691)	4,481	10,202	(14,368)	26,698	1,574	6,733	11,564	20,442	9,089	14,657	(3,888)	
1976	(2,628)	71,509	(47,865)	(122,978)	8,910	(6,563)	6,315	10,158	4,305	24,421	13,275	(2,277)	(2,721)	22,360		
1977	(202,464)	35,019	(29,033)	(104,451)	(75,963)	11,930	170,024	(2,209)	(7,776)	5,178	4,390	(12,693)	4,465			
1978	(392,287)	149,785	43,020	(11,323)	3,117	196,928	10,987	(5,384)	5,411	22,631	(226)	13,997				
1979	(127,347)	151,155	77,073	68,907	290,976	20,096	54,083	42,343	32,734	17,564	130,842					
1980	(58,921)	233,474	98,949	105,921	68,616	28,786	389	55,156	37,412	39,902						
1981	306,070	654,401	217,661	83,580	156,025	(45,548)	121,865	(52,190)	63,396							
1982	1,148,046	403,196	80,122	106,469	(37,401)	223,074	85,208	33,564								
1983	394,262	1,206,661	388,112	401,884	217,180	244,658	174,376									
1984	1,121,056	1,155,588	82,067	219,431	202,177	223,512										
1985	916,397	675,083	244,283	196,755	714,669											
1986	2,077,362	832,320	669,276	344,473												
1987	2,251,279	862,709	5,864,400													
1988	14,718,973	1,210,704														
	22,195,260															

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IMPORT WORKSHEET - £ STERLING ACCOUNT

SYN 290 CATEGORY SETTLED LOSSES - CUMULATIVE

	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17
1974	-42633	-18955	-20994	-15638	-32245	-56600	-61827	-66660	-70207	-70532	-69362	-69957	-69799	-71366	-71023
1975	129433	130184	81493	85974	96176	81808	108506	110080	116813	128377	148819	157908	172565	168677	0
1976	71509	23644	-99334	-90424	-96987	-90672	-80514	-76209	-51788	-38513	-40790	-43511	-21151	0	0
1977	35019	5986	-98465	-174428	-162498	7526	5317	-2459	2719	7109	-5584	-1119	0	0	0
1978	149785	192805	181482	184599	381527	392514	387130	392541	415172	414946	428943	0	0	0	0
1979	151155	228228	297135	588111	608207	662290	704633	737367	754931	885773	0	0	0	0	0
1980	233474	332423	438344	506960	535746	536135	591291	628703	668605	0	0	0	0	0	0
1981	654401	872062	955642	1111667	1066119	1187984	1135794	1199190	0	0	0	0	0	0	0
1982	403196	483318	589787	552386	775460	860668	894232	0	0	0	0	0	0	0	0
1983	1206661	1594773	1996657	2213837	2458495	2632871	0	0	0	0	0	0	0	0	0
1984	1155588	1237655	1457086	1659263	1882775	0	0	0	0	0	0	0	0	0	0
1985	675083	919366	1116121	1830790	0	0	0	0	0	0	0	0	0	0	0
1986	832320	1501596	1846069	0	0	0	0	0	0	0	0	0	0	0	0
1987	862709	6727109	0	0	0	0	0	0	0	0	0	0	0	0	0
1988	1210704	0	0	0	0	0	0	0	0	0	0	0	0	0	0

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IMPORT WORKSHEET - £ STERLING ACCOUNT

SYN 290 CATEGORY NOTED OUTSTANDINGS in stg

	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17
1974	37800	23000	11696	3124	18654	16155	20834	18373	18438	15934	13158	26526	25247	16361	9124
1975	37458	19816	46227	36838	22197	38905	35683	32355	32644	63991	89502	70963	48185	49283	0
1976	10498	8031	87870	93268	98647	85283	72353	71330	94707	113992	83580	71393	53174	0	0
1977	149278	178756	228542	231724	190572	68471	86856	115905	101531	133583	109336	101272	0	0	0
1978	162418	202618	240687	251534	49953	43195	45759	63806	53616	55327	73347	0	0	0	0
1979	339205	304869	431543	363691	350781	402364	340582	304015	279194	261185	0	0	0	0	0
1980	131002	206118	202635	182065	211833	129390	167953	180625	139153	0	0	0	0	0	0
1981	524207	462308	398468	565680	394105	525843	546311	487784	0	0	0	0	0	0	0
1982	538241	647971	732728	1068805	987436	1089490	1055513	0	0	0	0	0	0	0	0
1983	1266119	1180595	925101	827139	820423	805990	0	0	0	0	0	0	0	0	0
1984	1530448	1472230	1596961	1492126	1457624	0	0	0	0	0	0	0	0	0	0
1985	1521144	1754561	1889624	1610947	0	0	0	0	0	0	0	0	0	0	0
1986	2164770	2241711	1893650	0	0	0	0	0	0	0	0	0	0	0	0
1987	10344958	8860313	0	0	0	0	0	0	0	0	0	0	0	0	0
1988	2046163	0	0	0	0	0	0	0	0	0	0	0	0	0	0

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US $ ACCOUNT

SYN 290 CATEOOR NETT INCURRED LOSSES

	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17
1974	267598	135713	183461	168802	160092	160038	161057	181937	193866	216862	234819	268139	299956	298222	319636
1975	271863	574497	512464	606791	797790	903550	922742	1021514	998961	1014721	1115673	1412207	1563699	1670998	0
1976	769713	557243	716658	1194616	1216653	1420540	1359594	1367186	1358227	1446662	1922701	1908928	2426168	0	0
1977	362662	399316	-234627	-370461	-145402	-121827	-50937	-7438	569280	632239	514049	803693	0	0	0
1978	848919	944390	966341	1776109	1506082	1461993	1746221	2376512	2573821	2576408	2837566	0	0	0	0
1979	1914166	2264360	1987028	2270749	2167161	2140912	1827170	2178374	2013281	2261886	0	0	0	0	0
1980	4408104	3285821	3788887	3497051	3448836	3450935	3067857	2650788	3282394	0	0	0	0	0	0
1981	5065034	5345435	5598578	5788645	6663741	6819577	6920584	7907429	0	0	0	0	0	0	0
1982	5276030	5919701	6362440	8246689	8261527	8797891	10759379	0	0	0	0	0	0	0	0
1983	9040749	9003256	8996471	8654390	9887775	12072071	0	0	0	0	0	0	0	0	0
1984	7726846	8046222	9874354	11194099	11143136	0	0	0	0	0	0	0	0	0	0
1985	10838962	14942796	10643304	10768312	0	0	0	0	0	0	0	0	0	0	0
1986	8284109	9876388	10125887	0	0	0	0	0	0	0	0	0	0	0	0
1987	14449628	16588059	0	0	0	0	0	0	0	0	0	0	0	0	0
1988	21918118	0	0	0	0	0	0	0	0	0	0	0	0	0	0

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IMPORT WORKSHEET - US$ ACCOUNT

SYN 290 CATEGOR NOTED OUTSTANDINGS

	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17
1974	108300	22129	31064	30114	31604	56057	47875	69860	77001	78152	72138	98607	112376	117357	131711
1975	115980	223196	150332	184607	331287	369476	370055	433331	338896	302837	456569	768561	829991	875512	0
1976	360077	234257	323049	564620	523686	702055	518344	456237	392433	467028	960904	825224	1119694	0	0
1977	313968	330668	364113	343407	497440	575608	599853	622258	1162638	1162970	1031960	1209634	0	0	0
1978	361082	417288	799643	1363265	1128599	988117	871985	1439090	1437077	1349928	1556621	0	0	0	0
1979	587753	1462848	1439504	1521956	1596564	1732628	1421284	1636257	1368906	1618150	0	0	0	0	0
1980	990114	1746286	1934368	1931682	1592708	1955646	1814450	1723023	1970315	0	0	0	0	0	0
1981	1879432	1982996	2108201	2212259	3095394	3158541	3176826	3630600	0	0	0	0	0	0	0
1982	3153003	3697839	3249853	4952994	5237526	5290249	6038708	0	0	0	0	0	0	0	0
1983	4329968	4204527	4936532	5009170	6443582	8177767	0	0	0	0	0	0	0	0	0
1984	5189690	5112728	5226783	5666835	5879900	0	0	0	0	0	0	0	0	0	0
1985	7144275	12358985	8894650	8258434	0	0	0	0	0	0	0	0	0	0	0
1986	4965693	5521967	5598340	0	0	0	0	0	0	0	0	0	0	0	0
1987	7984621	6948492	0	0	0	0	0	0	0	0	0	0	0	0	0
1988	8175224	0	0	0	0	0	0	0	0	0	0	0	0	0	0

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IMPORT WORKSHEET - US$ ACCOUNT

SYN 290 CATEGOR SETTLED LOSSES

	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17
1974	159298	113584	152397	138688	128488	103981	113182	112077	116865	138710	162681	169532	187580	180865	187925
1975	155883	351301	362132	422184	466503	534074	552687	588183	660065	711884	659104	643646	733708	795486	0
1976	409636	322986	393609	629996	692967	718485	841250	910949	965794	979634	961797	1083704	1306474	0	0
1977	48694	68648	-598740	-713868	-642842	-697435	-650790	-629696	-593358	-530731	-517911	-405941	0	0	0
1978	487837	527102	166698	412844	377483	473876	874236	937422	1136744	1226480	1280945	0	0	0	0
1979	1326413	801512	547524	748793	570597	408284	405886	542117	644375	643736	0	0	0	0	0
1980	3417990	1539535	1854519	1565369	1856128	1495289	1253407	927765	1312079	0	0	0	0	0	0
1981	3185602	3362439	3490377	3576386	3568347	3661036	3743758	4276829	0	0	0	0	0	0	0
1982	2123027	2221862	3112587	3293695	3024001	3507642	4720671	0	0	0	0	0	0	0	0
1983	4710781	4798729	4059939	3645220	3444193	3894304	0	0	0	0	0	0	0	0	0
1984	2537156	2933494	4647571	5527264	5263236	0	0	0	0	0	0	0	0	0	0
1985	3694687	2583811	1748654	2509878	0	0	0	0	0	0	0	0	0	0	0
1986	3318416	4354421	4527547	0	0	0	0	0	0	0	0	0	0	0	0
1987	6465007	9639567	0	0	0	0	0	0	0	0	0	0	0	0	0
1988	13742894	0	0	0	0	0	0	0	0	0	0	0	0	0	0

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ANNUAL FIGURES – US$ ACCOUNT

SYN 290 CATEGOR SETTLED LOSSES

	DIAG TOT (4 – 25)	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17
1974		159,298	(45,714)	38,813	(13,709)	(10,200)	(24,507)	9,201	(1,105)	4,788	21,845	23,971	6,851	18,048	(6,715)	7,060
1975	(45,714)	155,883	195,418	10,831	60,052	44,319	67,571	18,613	35,496	71,882	51,819	(52,780)	(15,458)	90,062	61,778	
1976	234,231	409,636	(86,650)	70,623	236,387	62,971	25,518	122,765	69,699	54,845	13,840	(17,837)	121,907	222,770		
1977	(89,528)	48,694	19,954	(667,388)	(115,128)	71,026	(54,593)	46,645	21,094	36,338	62,627	12,820	111,970			
1978	140,429	487,837	39,265	(360,404)	246,146	(35,361)	96,393	400,360	63,186	199,322	89,736	54,465				
1979	(371,924)	1,326,413	(524,901)	(253,988)	201,269	(178,196)	(162,313)	(2,398)	136,231	102,258	(639)					
1980	(860,690)	3,417,990	(1,878,455)	314,984	(289,150)	290,759	(360,839)	(241,882)	(325,642)	384,314						
1981	(1,772,245)	3,185,602	176,837	127,938	86,009	(8,039)	92,689	82,722	533,071							
1982	766,185	2,123,027	98,835	890,725	181,108	(269,694)	483,641	1,213,029								
1983	65,891	4,710,781	87,948	(738,790)	(414,719)	(201,027)	450,111									
1984	1,745,217	2,537,156	396,338	1,714,077	879,693	(264,028)										
1985	(465,185)	3,694,687	(1,110,876)	(835,157)	761,224											
1986	152,528	3,318,416	1,036,005	173,126												
1987	1,530,303	6,465,007	3,174,560													
1988	6,882,811	13,742,894														
	7,912,309															

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CAN $ ACCOUNT IN US $

SYN 290 CATEGORY NETT INCURRED LOSSES

	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17
1974	5874	7383	2972	3121	6938	7570	8368	12873	12546	12221	12358	12259	12844	8632	8634
1975	16618	5754	19204	24180	21155	25593	28572	36857	35253	36936	33531	32772	32108	32026	0
1976	3868	7259	6401	13838	15508	15389	15260	14118	17224	15579	16820	16676	16928	0	0
1977	979	-2040	-17296	-20789	-20687	-19693	-18979	-18412	-17577	-17650	-18178	-18106	0	0	0
1978	6713	-13922	1854	-2096	1771	3073	827	20896	25768	-8637	19333	0	0	0	0
1979	32213	193498	169650	154518	137071	162612	142160	146668	141663	132480	0	0	0	0	0
1980	20749	23849	20842	22305	25841	24343	26740	31130	39257	0	0	0	0	0	0
1981	221493	213281	215219	230806	232839	246691	247675	260403	0	0	0	0	0	0	0
1982	157388	147707	179600	180035	184362	180657	186985	0	0	0	0	0	0	0	0
1983	333262	407631	454900	498032	561071	554424	0	0	0	0	0	0	0	0	0
1984	195698	116803	125895	151146	236946	0	0	0	0	0	0	0	0	0	0
1985	357016	384684	475164	451895	0	0	0	0	0	0	0	0	0	0	0
1986	168135	194701	224890	0	0	0	0	0	0	0	0	0	0	0	0
1987	898012	877688	0	0	0	0	0	0	0	0	0	0	0	0	0
1988	206438	0	0	0	0	0	0	0	0	0	0	0	0	0	0

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CAN $ ACCOUNT IN US $

SYN 290 CATEGORY NOTED OUTSTANDINGS

	DIAG TOT $ (4 - 25)	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17
1974		2,352	4,624	0	0	4,242	4,789	5,567	6,011	5,695	5,361	5,438	5,742	6,327	2,115	2,117
1975	4,624	7,521	0	5,619	3,645	1,050	1,429	2,174	6,687	4,966	6,612	3,216	2,577	1,913	1,831	0
1976	0	0	1,512	1,542	809	2,138	2,104	1,991	760	3,854	2,160	3,401	2,568	2,570	0	0
1977	7,131	0	195	455	1,085	759	2,154	1,509	2,006	2,666	2,594	2,239	2,261	0	0	0
1978	9,624	3,862	1,565	21,391	19,345	16,408	17,559	15,126	35,035	37,096	2,641	31,432	0	0	0	0
1979	8,667	30,006	160,582	131,401	115,879	98,980	124,057	95,898	97,597	92,251	81,027	0	0	0	0	0
1980	192,191	5,668	3,290	3,159	2,639	4,467	2,354	3,198	7,680	14,979	0	0	0	0	0	0
1981	165,085	142,827	66,151	66,180	71,731	71,684	82,366	75,098	81,275	0	0	0	0	0	0	0
1982	218,123	109,091	106,157	55,141	50,032	38,841	31,792	34,687	0	0	0	0	0	0	0	0
1983	304,111	164,431	107,000	128,353	133,756	158,175	136,205	0	0	0	0	0	0	0	0	0
1984	395,433	157,561	149,375	143,259	116,505	158,738	0	0	0	0	0	0	0	0	0	0
1985	546,517	201,850	160,350	222,568	193,290	0	0	0	0	0	0	0	0	0	0	0
1986	711,361	109,257	144,585	159,222	0	0	0	0	0	0	0	0	0	0	0	0
1987	860,133	532,202	176,624	0	0	0	0	0	0	0	0	0	0	0	0	0
1988	1,076,258	85,689	0	0	0	0	0	0	0	0	0	0	0	0	0	0
	4,499,258															

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CUMULATIVE FORMAT - CAN $ ACCOUNT IN US $

SYN 290 CATEGORY SETTLED LOSSES - cumulative

	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17
1974	3522	2758	2972	3121	2696	2782	2801	6862	6851	6860	6920	6516	6517	6517	6517
1975	9097	5754	13585	20535	20106	24164	26398	30170	30287	30324	30315	30195	30195	30195	
1976	3868	5747	4859	13029	13370	13285	13269	13358	13370	13418	13418	14108	14358		
1977	979	-2235	-17750	-21875	-21447	-21847	-20488	-20417	-20243	-20243	-20417	-20366			
1978	2851	-15487	-19537	-21442	-14636	-14486	-14299	-14139	-11328	-11279	-12099				
1979	2207	32916	38249	38639	38092	38554	46262	49071	49412	51453					
1980	15081	20559	17684	19666	21374	21989	23542	23450	24278						
1981	78665	147130	149039	159076	161154	164325	172577	179129							
1982	48298	41550	124458	130004	145522	148865	152297								
1983	168832	300632	326547	364276	402896	418219									
1984	38137	-32573	-17364	34640	78208										
1985	155165	224334	252596	258605											
1986	58878	50116	65668												
1987	365809	701064													
1988	120750														

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ANNUAL FIGURES - CAN $ ACCOUNT IN US $

SYN 290 CATEGORY SETTLED LOSSES

	DIAG TOT (4 - 25)	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17
1974		3,522	(763)	214	148	(424)	85	20	4,061	(11)	9	60	(404)	1	0	0
1975	(763)	9,097	(3,343)	7,831	6,950	(429)	4,058	2,234	3,772	117	37	(8)	(120)	0	0	
1976	(3,129)	3,868	1,880	(888)	8,170	341	(85)	(17)	89	12	49	0	690	250		
1977	9,859	979	(3,214)	(15,515)	(4,124)	428	(400)	1,359	71	174	0	(174)	51			
1978	2,424	2,851	(18,339)	(4,050)	(1,904)	6,805	150	187	160	2,811	49	(820)				
1979	(26,028)	2,207	30,708	5,333	390	(547)	463	7,707	2,809	341	2,041					
1980	26,953	15,081	5,478	(2,875)	1,983	1,707	616	1,552	(91)	828						
1981	15,545	78,665	68,465	1,909	10,037	2,079	3,170	8,252	6,552							
1982	76,129	48,298	(6,748)	82,908	5,545	15,518	3,343	3,433								
1983	(1,680)	168,832	131,800	25,915	37,730	38,619	15,324									
1984	227,282	38,137	(70,710)	15,208	52,005	43,567										
1985	(28,877)	155,165	69,168	28,262	6,010											
1986	147,848	58,878	(8,762)	15,552												
1987	122,534	365,809	335,255													
1988	428,041	120,750														
	996,137															

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ANNUAL FIGURES IN CAN $

SYN 290 CATEGORY SETTLED LOSSES

	DIAG TOT $ (4 - 25)	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17
1974		3,563	(835)	254	173	(506)	101	24	5,069	(14)	12	83	(524)	1	0	0
1975	(763)	9,950	(3,966)	9,136	8,288	(508)	4,985	2,789	4,975	163	51	(11)	(143)	0	0	
1976	(3,129)	4,588	2,193	(1,059)	9,667	419	(106)	(22)	124	17	63	0	801	290		
1977	9,859	1,142	(3,833)	(18,358)	(5,066)	534	(528)	1,893	98	226	0	(202)	59			
1978	2,424	3,400	(21,699)	(4,975)	(2,377)	8,976	209	259	208	3,339	57	(952)				
1979	(26,028)	2,612	37,722	6,657	514	(762)	641	10,003	3,337	396	2,369					
1980	26,953	18,525	6,838	(3,792)	2,762	2,365	799	1,844	(106)	961						
1981	15,545	98,196	90,303	2,659	13,902	2,698	3,766	9,585	7,604							
1982	76,129	63,703	(9,400)	114,839	7,197	18,433	3,883	3,984								
1983	(1,680)	235,200	182,561	33,634	44,817	44,856	17,785									
1984	227,282	52,825	(91,772)	18,065	60,403	50,565										
1985	(28,877)	201,385	82,161	32,826	6,975											
1986	147,848	69,938	(10,177)	18,050												
1987	122,534	424,884	389,104													
1988	428,041	140,145														
	996,137															

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IMPORT WORKSHEET - CAN $ ACCOUNT

SYN 290 CATEGORY SETTLED LOSSES - CUMULATIVE

	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17
1974	3563	2728	2982	3155	2649	2750	2774	7843	7829	7841	7924	7400	7401	7401	7401
1975	9950	5984	15120	23408	22900	27885	30674	35649	35812	35863	35852	35709	35709	35709	0
1976	4588	6781	5722	15389	15808	15702	15680	15804	15821	15884	15884	16685	16975	0	0
1977	1142	-2691	-21049	-26115	-25581	-26109	-24216	-24118	-23892	-23892	-24094	-24035	0	0	0
1978	3400	-18299	-23274	-25651	-16675	-16466	-16207	-15999	-12660	-12603	-13555	0	0	0	0
1979	2612	40334	46991	47505	46743	47384	57387	60724	61120	63489	0	0	0	0	0
1980	18525	25363	21571	24333	26698	27497	29341	29235	30196	0	0	0	0	0	0
1981	98196	188499	191158	205060	207758	211524	221109	228713	0	0	0	0	0	0	0
1982	63703	54303	169142	176339	194772	198655	202639	0	0	0	0	0	0	0	0
1983	235200	417761	451395	496212	541068	558853	0	0	0	0	0	0	0	0	0
1984	52825	-38947	-20882	39521	90086	0	0	0	0	0	0	0	0	0	0
1985	201385	283546	316372	323347	0	0	0	0	0	0	0	0	0	0	0
1986	69938	59761	77811	0	0	0	0	0	0	0	0	0	0	0	0
1987	424884	813988	0	0	0	0	0	0	0	0	0	0	0	0	0
1988	140145	0	0	0	0	0	0	0	0	0	0	0	0	0	0

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IMPORT WORKSHEET - CAN $ ACCOUNT

SYN 290 CATEGORY NOTED OUTSTANDINGS

	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17
1974	2380	5058	0	0	5058	5666	6838	7503	7511	7468	7532	7453	7515	2457	2457
1975	8226	0	6556	4346	1242	1755	2714	8820	6918	9159	4174	3061	2222	2125	0
1976	0	1764	1839	957	2626	2626	2626	1059	5339	2804	4040	2983	2983	0	0
1977	0	233	538	1333	948	2841	2102	2778	3460	3081	2601	2624	0	0	0
1978	4605	1852	26277	24148	21641	24462	20952	45471	44064	3068	36481	0	0	0	0
1979	35504	197258	164025	152841	137889	171836	124464	115930	107149	94042	0	0	0	0	0
1980	6963	4107	4166	3676	6188	3055	3799	8920	17385	0	0	0	0	0	0
1981	178288	87251	92196	99357	93037	97838	87226	94329	0	0	0	0	0	0	0
1982	143887	147888	76378	64935	46137	36926	40259	0	0	0	0	0	0	0	0
1983	229069	148209	166586	158881	183719	158082	0	0	0	0	0	0	0	0	0
1984	218243	193870	170170	135320	184235	0	0	0	0	0	0	0	0	0	0
1985	261976	190471	258511	224336	0	0	0	0	0	0	0	0	0	0	0
1986	129780	167934	184797	0	0	0	0	0	0	0	0	0	0	0	0
1987	618148	204994	0	0	0	0	0	0	0	0	0	0	0	0	0
1988	99452	0	0	0	0	0	0	0	0	0	0	0	0	0	0

TOTAL IN US $

SYN 290 CATEGOR NETT INCURRED LOSSES

	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	TOTAL
1974	265,256	160,241	179,119	159,574	152,639	92,972	89,216	100,483	102,718	126,633	142,828	205,326	233,842	206,018	219,364	2,436,227
1975	608,912	870,719	776,242	871,672	1,033,486	1,141,037	1,190,635	1,285,309	1,280,717	1,362,648	1,572,183	1,844,588	1,968,149	2,085,400	0	17,891,699
1976	940,875	621,949	678,769	1,149,315	1,144,056	1,320,833	1,231,810	1,264,001	1,331,030	1,516,915	1,927,048	1,872,414	2,420,744	0	0	17,419,758
1977	772,780	832,856	(6,556)	(330,066)	(186,670)	(161,776)	(46,860)	31,296	637,922	759,662	554,754	872,511	0	0	0	3,729,855
1978	1,601,797	1,757,623	1,779,919	2,565,068	2,220,566	2,198,397	2,477,502	3,190,266	3,410,499	3,370,348	3,738,974	0	0	0	0	28,310,958
1979	2,882,967	3,365,310	3,295,895	3,698,160	3,693,016	3,859,216	3,649,423	3,974,356	3,731,771	4,278,303	0	0	0	0	0	36,428,416
1980	5,019,304	4,130,245	4,689,358	4,527,416	4,574,859	4,505,931	4,285,824	3,920,190	4,614,693	0	0	0	0	0	0	40,267,821
1981	6,995,508	7,296,362	7,714,135	8,410,134	9,105,343	9,706,465	9,652,216	10,836,005	0	0	0	0	0	0	0	69,716,169
1982	6,525,485	7,590,851	8,367,935	11,107,222	11,308,057	11,944,720	14,260,376	0	0	0	0	0	0	0	0	71,104,646
1983	12,959,542	13,482,232	14,270,167	14,122,245	15,636,328	18,385,202	0	0	0	0	0	0	0	0	0	88,855,717
1984	11,897,877	12,795,373	15,152,475	16,334,799	17,211,906	0	0	0	0	0	0	0	0	0	0	73,392,430
1985	15,324,885	20,214,543	16,188,846	17,736,729	0	0	0	0	0	0	0	0	0	0	0	69,465,004
1986	13,876,977	16,264,277	17,254,388	0	0	0	0	0	0	0	0	0	0	0	0	47,395,642
1987	33,391,983	47,273,405	0	0	0	0	0	0	0	0	0	0	0	0	0	80,665,388
1988	28,410,310	0	0	0	0	0	0	0	0	0	0	0	0	0	0	28,410,310

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TOTAL IN US $

SYN 290 CATEGOR NOTED OUTSTANDINGS

	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	TOTAL
1974	174,912	70,913	54,924	37,049	80,429	91,702	87,193	102,512	104,084	106,617	97,050	154,218	164,400	145,814	151,437	1,623,253
1975	195,420	263,621	258,575	276,294	374,733	433,931	423,970	477,550	391,196	404,156	628,049	899,581	909,482	972,459	0	6,909,016
1976	381,493	253,598	534,600	743,571	685,632	827,819	604,264	560,426	536,454	683,493	1,115,585	942,735	1,224,890	0	0	9,094,560
1977	645,365	758,090	801,083	719,885	774,529	657,188	727,303	795,803	1,356,182	1,407,349	1,210,230	1,407,350	0	0	0	11,260,358
1978	753,123	805,854	1,210,947	1,747,334	1,202,952	1,068,309	954,835	1,594,080	1,571,218	1,441,646	1,729,613	0	0	0	0	14,079,911
1979	1,265,640	2,117,318	2,196,643	2,059,717	2,204,176	2,452,184	2,157,477	2,284,121	1,910,660	2,203,264	0	0	0	0	0	20,851,199
1980	1,208,006	2,048,447	2,172,583	2,198,315	1,910,688	2,201,253	2,121,643	2,021,509	2,253,859	0	0	0	0	0	0	18,136,304
1981	2,782,360	2,585,424	2,752,160	3,121,196	3,907,996	4,192,683	4,131,485	4,653,298	0	0	0	0	0	0	0	28,126,601
1982	3,886,453	4,743,554	4,389,432	7,012,379	7,063,626	7,076,120	8,110,536	0	0	0	0	0	0	0	0	42,282,100
1983	6,330,271	6,058,807	6,804,075	6,640,047	7,922,638	9,869,532	0	0	0	0	0	0	0	0	0	43,625,371
1984	7,612,314	8,029,896	8,260,542	8,185,663	8,851,853	0	0	0	0	0	0	0	0	0	0	40,940,267
1985	10,205,876	15,695,090	12,159,513	11,560,851	0	0	0	0	0	0	0	0	0	0	0	49,621,331
1986	8,993,183	9,275,707	9,412,307	0	0	0	0	0	0	0	0	0	0	0	0	27,681,197
1987	25,172,206	24,225,520	0	0	0	0	0	0	0	0	0	0	0	0	0	49,397,726
1988	12,210,007	0	0	0	0	0	0	0	0	0	0	0	0	0	0	12,210,007

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CUMULATIVE TOTAL IN US $

SYN 290 CATEGOR SETTLED LOSSES

	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	TOTAL
1974	90,343	89,328	124,195	122,525	72,210	1,270	2,023	(2,029)	(1,366)	20,016	45,779	51,107	69,442	60,204	67,926	812,975
1975	413,492	607,098	517,666	595,378	658,754	707,106	766,666	807,760	889,521	958,492	944,134	945,007	1,058,667	1,112,941	0	10,982,683
1976	559,382	368,351	144,169	405,744	458,424	493,014	627,545	703,576	794,576	833,421	811,463	929,679	1,195,854	0	0	8,325,197
1977	127,415	74,766	(807,639)	(1,049,951)	(961,198)	(818,964)	(774,163)	(764,507)	(718,260)	(647,687)	(655,477)	(534,838)	0	0	0	(7,530,503)
1978	848,674	951,769	568,972	817,733	1,017,614	1,130,088	1,522,667	1,596,186	1,839,281	1,928,702	2,009,361	0	0	0	0	14,231,047
1979	1,617,327	1,247,992	1,099,252	1,638,443	1,488,839	1,407,032	1,491,946	1,690,235	1,821,112	2,075,039	0	0	0	0	0	15,577,217
1980	3,811,299	2,081,798	2,516,775	2,329,101	2,664,170	2,304,678	2,164,181	1,898,681	2,360,834	0	0	0	0	0	0	22,131,517
1981	4,213,149	4,710,938	4,961,975	5,288,938	5,197,347	5,513,782	5,520,731	6,182,708	0	0	0	0	0	0	0	41,589,568
1982	2,639,032	2,847,296	3,978,504	4,094,843	4,244,431	4,868,600	6,149,840	0	0	0	0	0	0	0	0	28,822,546
1983	6,629,271	7,423,425	7,466,092	7,482,198	7,713,690	8,515,670	0	0	0	0	0	0	0	0	0	45,230,346
1984	4,285,563	4,765,478	6,891,933	8,149,136	8,360,053	0	0	0	0	0	0	0	0	0	0	32,452,163
1985	5,119,009	4,519,453	4,029,333	6,175,878	0	0	0	0	0	0	0	0	0	0	0	19,843,673
1986	4,883,793	6,988,571	7,842,081	0	0	0	0	0	0	0	0	0	0	0	0	19,714,445
1987	8,219,778	23,047,884	0	0	0	0	0	0	0	0	0	0	0	0	0	31,267,662
1988	16,200,303	0	0	0	0	0	0	0	0	0	0	0	0	0	0	16,200,303

TOTAL IN US $ ANNUAL FIGURES

SYN 290 CATEGOR SETTLED LOSSES

	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	TOTAL
1974	90,343	(1,016)	34,868	(1,670)	(50,315)	(70,940)	753	(4,052)	663	21,382	25,763	5,329	18,335	(9,238)	7,722	67,926
1975	413,492	193,607	(89,432)	77,712	63,375	48,353	59,559	41,094	81,762	68,971	(14,358)	873	113,660	54,274		1,112,941
1976	559,382	(191,031)	(224,182)	261,575	52,680	34,590	134,532	76,030	91,000	38,846	(21,958)	118,216	266,175	0		1,195,854
1977	127,415	(52,649)	(882,404)	(242,312)	88,752	142,235	44,801	9,656	46,247	70,573	(7,790)	120,638	0	0		(534,838)
1978	848,674	103,095	(382,797)	248,761	199,881	112,474	392,579	73,519	243,095	89,421	80,659	0	0	0		2,009,361
1979	1,617,327	(369,334)	(148,740)	539,191	(149,604)	(81,807)	84,914	198,289	130,877	253,927						2,075,039
1980	3,811,299	(1,729,501)	434,977	(187,674)	335,070	(359,492)	(140,497)	(265,500)	462,153	0						2,360,834
1981	4,213,149	497,789	251,038	326,963	(91,590)	316,435	6,948	661,977	0	0						6,182,708
1982	2,639,032	208,264	1,131,207	116,339	149,588	624,169	1,281,240	0	0	0						6,149,840
1983	6,629,271	794,154	42,667	16,106	231,492	801,980										8,515,670
1984	4,285,563	479,914	2,126,455	1,257,203	210,917	0										8,360,053
1985	5,119,009	(599,556)	(490,119)	2,146,545	0	0										6,175,878
1986	4,883,793	2,104,777	853,511	0	0	0										7,842,081
1987	8,219,778	14,828,107	0	0	0	0										23,047,884
1988	16,200,303	0	0	0	0	0										16,200,303

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TOTAL IN US $ ANNUAL FIGURES

SYN 290 CATEGOR SETTLED LOSSES

	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	TOTAL
1974	90,343	(1,016)	34,868	(1,670)	(50,315)	(70,940)	753	(4,052)	663	21,382	25,763	5,329	18,335	(9,238)	7,722	67,926
1975	413,492	193,607	(89,432)	77,712	63,375	48,353	59,559	41,094	81,762	68,971	(14,358)	873	113,660	54,274		1,112,941
1976	559,382	(191,031)	(224,182)	261,575	52,680	34,590	134,532	76,030	91,000	38,846	(21,958)	118,216	266,175	0		1,195,854
1977	127,415	(52,649)	(882,404)	(242,312)	88,752	142,235	44,801	9,656	46,247	70,573	(7,790)	120,638	0	0		(534,838)
1978	848,674	103,095	(382,797)	248,761	199,881	112,474	392,579	73,519	243,095	89,421	80,659	0	0	0		2,009,361
1979	1,617,327	(369,334)	(148,740)	539,191	(149,604)	(81,807)	84,914	198,289	130,877	253,927						2,075,039
1980	3,811,299	(1,729,501)	434,977	(187,674)	335,070	(359,492)	(140,497)	(265,500)	462,153	0						2,360,834
1981	4,213,149	497,789	251,038	326,963	(91,590)	316,435	6,948	661,977	0	0						6,182,708
1982	2,639,032	208,264	1,131,207	116,339	149,588	624,169	1,281,240	0	0	0						6,149,840
1983	6,629,271	794,154	42,667	16,106	231,492	801,980										8,515,670
1984	4,285,563	479,914	2,126,455	1,257,203	210,917	0										8,360,053
1985	5,119,009	(599,556)	(490,119)	2,146,545	0	0										6,175,878
1986	4,883,793	2,104,777	853,511	0	0	0										7,842,081
1987	8,219,778	14,828,107	0	0	0	0										23,047,884
1988	16,200,303	0	0	0	0	0										16,200,303