

# BULLETIN UPDATE

APRIL 2007

## Lloyd's Removes Key Regulatory Obstacles to Basel II Compliant Policies

In a recent Market Bulletin Lloyd's of London advised that they had removed a number of key mandatory restrictions, conditions and exclusions on the underwriting of political and credit risk insurance. From a Basel II perspective these changes are very significant – they directly allow underwriters to enhance the value of insurance underwritten for banks.

JLT has been developing and arranging credit wordings that aim to be Basel II compliant with the company market for some time. The Lloyd's changes now mean that JLT can seek to place such transactions within the Lloyd's marketplace. Indeed Lloyd's underwriters are now free from some of the restrictions that have continued to challenge other markets, subject to applicable individual reinsurance arrangements.

Lloyd's underwriters can now support more precise and less conditional policy documentation. The cover provided under such documentation is available to insure credit risk associated with almost all forms of trade, export, commodity and structured finance, and we believe some non-trade related credits.

The historic mandatory exclusions that have been removed by Lloyd's include perhaps most significantly:

- The Radioactivity and Nuclear exclusion
- The Five Great Power War exclusion
- Third Party Insolvency exclusion
- Currency Fluctuations and Devaluation exclusion.

Lloyd's move releases significant additional capacity to support enhanced policy documentation, increasing the theoretically available figure for a single transaction to somewhere in excess of USD500m. The changes outlined here should also mean that insurance policies can have a greater affinity with Unfunded Risk Participations and the capital benefits that such structures deliver to banks.



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Equally significant is the way in which the new rules define 'Trade Credit'. Previously the Lloyd's market consensus was that 'Trade Credit' covered the sale of goods or services. The new rules imply that the underlying contract may not have to be trade related.

Lloyd's latest amendment to its regulations reflects the steady growth in demand for less conditional cover in recent years. The changes have been forced through in response to external demand and pressure from brokers and individual line underwriters. JLT has been a key participant in securing the development of comprehensive political and credit risk insurance, to ensure that it fully meets the requirements of finance sector clients.

JLT is also able to obtain for clients the agreement of insurers that all underwriting information provided prior to the inception of coverage constitutes a full disclosure. Clients can therefore be confident that any subsequent claim will be met without the "wriggle factor" – the potential for disputes over what information is regarded as material and should have been disclosed.

JLT places an average of USD30bn of trade and political risk into the market for our bank, commodity trader and corporate clients at any one time. For more information on the risk solutions available for political risk, country economic risk, counterparty (credit) risk, terrorism, political violence and war related risk, please contact the following:

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