

London Authorities' Mutual Limited

Member Admission

Introduction

This paper has been produced at the request of the Board of LAML to examine the considerations surrounding member admission and to recommend a process, particularly with regard to the establishment of the required capital contribution.

Recommendations

- Applicants are charged a fee of £10,000 to defray the costs associated with the admission process. This would be off-set against the capital contribution upon admission.
- The admission process will start no later than 4 months before inception date.
- Applicants will be required to make a minimum capital contribution of £770,000.
- If the mutual's ICA and GICR calculations require a bigger input the additional capital requirement will be charged directly to the applicant.
- If the mutual's ICA and GICR calculations are unaltered the difference between the mutual's capital including the applicant and the mutual's capital excluding the applicant will be redistributed equally to the 10 'founding members'.

Background

Membership of LAML is open to the 32 London Boroughs, the City Corporation of London and the Greater London Authority. Membership of LAML is not automatic and requires a specific decision to admit on the part of the Board following an application for membership. The Board is not required to give any reason for its decision regarding admission.

The Board considers that authorities joining subsequently should not enter on more advantageous terms than those enjoyed by the 10 'founding members'.

Membership Eligibility Considerations

Membership eligibility considerations can be split into two main categories:

- Acceptability of the member:
 - The applicant should not present the mutual with such an adverse loss and exposure profile that it will imperil the anticipated financial performance of the mutual.
 - The applicant assumes deductibles in line with LAML's underwriting requirements.
 - The applicant meets the minimum acceptable risk management standards of LAML (when developed).
 - The applicant is looking to place its insurances with LAML outside of the Public Procurement process.

- The applicant is committing to place all its eligible insurances with LAML at the next expiry date of its Long Term Agreement – it is not adversely selecting against the mutual.
- Regulatory and operational considerations:
 - The impact of the admission of the applicant on the mutual's Internal Capital Allocation requirements (currently £7.7m).
 - The impact of the admission of the applicant on the mutual's General Insurance Capital Requirement (GICR) will need to be considered.
 - The impact of the admission of the applicant on the mutual's scope of permissions.
 - The impact of the admission of the applicant on the mutual's reinsurance programme.

Proposals

Admission Process

No application for admission will be considered less than 4 months ahead of the applicant's inception date.

The applicant will be required to pay an admission application fee of **£10,000** to offset the costs associated with processing the application (audit and actuarial). In the event that the applicant is accepted for membership the admission application fee will be offset against the paid up element of the applicant's capital contribution.

The applicant will need to demonstrate that they have the necessary Cabinet approvals (or similar) to move their eligible insurances into LAML without utilising the Public Procurement process and that they will only initiate a Public Procurement exercise in the event that their application to join LAML is unsuccessful.

The applicant will be required to provide the managers with such underwriting, loss and exposure information as the managers require in an agreed electronic format.

The applicant will need to demonstrate over the previous 5 years that incurred claims above their underlying deductible and Incurred But Not Reported allocation are less than 60% of gross premium. This will be established in conjunction with LAML's consulting actuaries. (The managers are aiming to write the portfolio of risks LAML assumes at a better than 60% gross loss ratio. This requirement will ensure that the quality of the membership (from a historical loss perspective) is not adversely impacted by new admissions).

The managers will need to make such arrangements as are necessary to accommodate the applicant's risks and exposures within LAML's reinsurance programme and obtain the reinsurance quotation required by reinsurers to accommodate the risks.

The applicant's risk management processes will be audited against LAML's risk management standards.

LAML's Internal Capital Application calculation will be recast and agreed by consulting actuaries.

LAML's General Insurance Capital Requirement will be recalculated on the basis of the additional premium income and loss activity anticipated as a result of admitting the applicant.

Where necessary, the FSA will be advised of any changes to capital or gross earned premium amounts consequent upon admission of the applicant.

The managers via the Underwriting and Claims committee will make a recommendation on admission of the applicant.

The Board will determine on the admission of the applicant.

Financial Implications

As a minimum an applicant who is not one of the 10 'founding members' will be required to pay:

- An application fee of £10,000.
- A paid capital contribution of a minimum of £160,500.

And make available a guaranteed capital contribution of a minimum of £609,500.

In the event that the ICA calculation exceeds £7.7m and/or the required cash proportion of the recalculated GICR exceeds £1.605m, the applicant's paid and guaranteed capital contribution will be adjusted to make good the shortfall, subject always to the minimum contribution of £160,500 in cash and £609,500 in guarantees.

In the event that the required cash proportion of the recalculated GICR does not exceed £160,500, then on a timescale determined by the Board the difference between the total sum of the paid capital contributions and the GICR requirement will be redistributed equally amongst the 10 'founding members'.