

NOTICE TO CLIENTS

FSA REGULATION AND CLIENT MONEY

This notice contains important information relevant to you if you are our direct insurance or reinsurance¹ client either within or outside the UK. It is also relevant to all insurance intermediaries who introduce business to us either from within the UK or outside the UK.

From 14 January 2005 we and all other UK insurance intermediaries will be regulated by the Financial Services Authority ('FSA').

This notice is intended to advise you about resultant changes in the rules concerning the way we, as your insurance broker (insurance intermediary), handle our customers' money. This includes premium received by us from you and also claims money and return premium that is received by us from insurers for payment to you.

The FSA rules are designed to protect you in the event that an insurance intermediary fails or is unable to transfer:

- to the insurer any premium money it has received from you; or
- to you any claims or return premium monies that it has received from the insurer.

Under the rules when we receive money from you or for payment to you we will hold such money either:

- as agent of the relevant insurer (otherwise known as '**Risk Transfer**'); or
- on trust as '**Client Money**' in a segregated bank account. In the unlikely event of our failure, such '**Client Money**' is available to clients ahead of other creditors.

Risk Transfer

Where we have agreed with certain insurers to receive money as their agent, money received from you (or the insurer) will become (or remain) the property of the insurer whilst we hold it. Therefore if you pay a premium to us it will be treated as having been received by the insurer which means that you cannot be asked to pay again if we do not pay the insurer. Similarly, the insurer will bear the risk if claims money or return premium money they have paid to us is not paid to you. Where the insurer bears the risk of such losses the industry often refers to this as '**Risk Transfer**'.

Client Money

Where **Risk Transfer** does not apply, money received from clients (or the insurer) will remain (or become) the property of clients whilst we hold it. Therefore, the premium is not treated as having been received by the insurer until it actually receives it. Where the insurer has paid claims money or premium to us, then we hold this on the client's behalf. As Client Money is not our money, the FSA rules require that '**Client Money**' is kept separate from our own money with an approved bank segregated in a client bank account that must be designated as either **Statutory Trust** or **Non-statutory Trust**.

Under a Non-statutory Trust we are entitled to use client money held on behalf of one client to pay another client's premium before the premium has been received from the other client and to pay claims and premium refunds to a client before such monies have been received from the insurer. Neither is ever permitted under a Statutory Trust. We will only fund premium or claims in this way in specific limited circumstances.

¹ (Where relevant, any reference to insurance includes reinsurance and any reference to insurer includes reinsurer.)

We are required to keep Client Money separate from our own money. We will normally do this by holding money in a client bank account. However under a Non-Statutory Trust we may hold certain permitted designated investments with a value at least equal to the money that would otherwise have been paid into the client bank account. If we do this, we will accept responsibility for meeting any shortfall in client money resources that are attributable to falls in the market value of such segregated investments.

We will not be offering to hold client money on Statutory Trust. From 14 January 2005, we will hold all Client Money under a Non-statutory Trust.

To hold Client Money under a Non-statutory Trust, the FSA rules require us to maintain specific minimum capital resources and also adequate systems and controls to monitor and manage Client Money and any credit risk. We are also required to obtain and keep a written confirmation from our auditors that our systems and controls are adequate.

As is consistent with current arrangements, any interest earned on Client Money will be retained by us rather than paid to you.

Upon request we will provide you with a copy of the relevant Trust Deed.

Banking arrangements

We are required to deposit Client Money in accordance with FSA rules.

We may, for the purposes of carrying out your transaction:

- hold your money in a general client account with HSBC Bank plc;
- hold your money in a general client account with another bank outside the UK;
- pass your money to another insurance intermediary or settlement agent, inside or outside the UK.

The legal and regulatory regime that applies to such entities outside the UK may be different from that in the UK. In the event of failure of such an entity, the money may be treated in a different manner from that which would apply if the money were held in the UK. If you do not wish us to handle your money in any of the ways described above (or in any particular jurisdiction) you must notify us in writing. If we have not paid the money away (and are not legally obliged to do so) we will return the money to you. This does not apply to money held on risk transfer as this is deemed to belong to the insurer.

Currency

We may need to convert currency you have sent us into another currency for the purposes of carrying out your transaction. If we have converted but not paid such money to insurers or other third parties (and are not legally obliged to do so) and you request us to return such money to you then, then you agree that we will return such money to you in the currency to which we have converted it and at the exchange rate at which we originally converted it. Should we agree to re-convert the currency for you, you will agree to accept re-conversion at the market exchange rate prevailing at the time of re-conversion.

Your Acceptance

From 14 January 2005, you will be deemed to have given us your informed consent to our holding your money on the Non-statutory Trust basis described above if you have received this notice and continue to do business with us. Therefore, if you are happy with us holding client money on a non-statutory trust there is no need for you to take any action.

If you have any queries please contact your usual account handler at Gauntlet or alternatively you may prefer to send us an e-mail at ins@gauntlet.uk.com. To assist us in dealing with your query please quote the reference shown at the top of the covering letter under which this notice has been sent to you.

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