Lloyd’s Thematic Tests for Uncertainty - Reserving

FAQs (Version 4)

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Version History

Date: 25 July 2019	Version 1, accompanying finalised templates and initial release of populated Actual vs Plan test of uncertainty templates based on 2019 SBF
Date: 15 August 2019	Version 2, reflecting discussions with the market, and accompanying release of more detailed syndicate-specific Actual vs Plan one-pagers. New questions are highlighted **{NEW 15 August 2019}**
Date: 29 August 2019:	Version 3, reflecting discussions with market on calculation of roll forward mis-statement percentage. New questions are highlighted **{NEW 29 August 2019}**
Date: 4 September 2019:	Version 4, reflecting discussions with market on the calculation of the technical provisions Q2 to Q4 roll forward mis-statement self-loading and timing of review. New questions are highlighted **{NEW 4 September 2019}**

Introduction

Following the circulation of our example forms and populated forms for the thematic tests of uncertainty, specifically linked to Reserving, we received a number of comments and questions from agents. This document contains responses to many of the common topics that were raised.

Roll Forward Test

Q: If the loading will only be calculated based on the claims outputs, is it necessary to collect the other components?

A: Lloyd's requires collection of the additional data to reconcile the two submissions. Also, the % misstatement is calculated from the total net TPs which include the premium, reinsurance and all other items.

Q: It seems overly punitive to load based on a 1:1 ratio of claims deficiency to capital impact? **{NEW 4 September 2019 – Amendment to response}**

A: The loading has changed to be based on the % mis-statement implied by the total deficiency (which only covers net non-catastrophe losses) divided by the projected total net TPs in the most recent submission. This % mis-statement is used to uplift the reserve risk (post-diversification). The resultant loading is then doubled to reflect the limitations and uncertainty in this high level process as well as to encourage Syndicates to resolve the underlying issue themselves and thereby avoid loadings. Any loading is rounded to the nearest £2.5m.

Q: Using a three-year averaging period will include two catastrophe impacted years – why not use more than a three-year average?

A: A three-year average has been decided on to maximise the volume of information Lloyd's can obtain while minimising the amount of effort for the managing agent; catastrophe events are also excluded from the loading calculation.

Q: Does the test include 2019 YoA?

A: 2019 YoA is excluded from the form.

Q: Some of this information is already supplied to Lloyd's – can the form not be pre-populated in the form before being given to Syndicates?

A: The form must be populated by Syndicates to ensure data is allocated correctly between items - Lloyd's only has the overall position at year-end.

Q: Where in the form should discounting, risk margin and bad debt be entered?

A: Any items that don't fall into the main entries should be entered in the "Other" sections.

Q: Is there anywhere for Large Losses to be considered in the form?

A: Unless a catastrophe these should be included in the "Non Catastrophe Losses" line.

Q: In future years will this form always request 2016 onwards or always the last three submissions years?

A: This will always be three submission years.

Q: Is it not overly punitive to load by year of account rather than on aggregate?

A: The test is by year of account to allow for deficiencies in the maturity of individual reporting years which would not be possible if an aggregate view was taken.

Q: How will Lloyd's ensure a market wide consistent treatment of catastrophes?

A: This is an accepted limitation of the exercise.

Q: Will the loading be removed in March when the roll-forward data is no longer used?

A: Any resubmitted Syndicate model in March will have any loading removed; however, if the model is not resubmitted the original loading will stand.

Q: Is there any materiality threshold being applied to stop immaterial loadings?

A: Any potential loading is rounded to the nearest £2.5 million.

Q: Does this test apply to run-off syndicates? **{NEW 15 August 2019}**

A: The LCR Roll forward test would apply to all Syndicates whether live or run off.

Q: Should the risk margin be entered in the form? **{NEW 15 August 2019}**

A: The risk margin should be included in the "Other" sections of the form to ensure the CHECK row will reconcile.

Q: Should bound but not incepted / unincepted legally obliged business be included in the form? **{NEW 15 August 2019}**

A: Our intention is not to capture or test the roll forward of any BBNI or unincepted legally obliged business for 2019 YOA. Please do not enter this information in any part of the form, including the reconciliation items. We will improve the form to clarify and avoid this issue next year. For now, we will take this into account when considering any subsequent reconciliation to the data we hold.

Q: Where should acquisition cost items be entered? Item 1.1 is defined as Gross-Net Future Premium, which implies acquisitions should be dealt with here, yet the examples given for Item 1.3 also include acquisitions? **{NEW 15 August 2019}**

A: From a loadings perspective the premiums and acquisition costs won't impact the results but are present so we can reconcile the items. I would suggest that you include gross net future premium in 1.1 as per the instructions, and don't put acquisition costs in 1.3. We will clarify this in the form for next year.

Q: Your current approach will penalise syndicates that have significant unsigned premium at year end, as the Net TPs will be calculated to be lower and therefore resulting in a higher misstatement ratio. Will you allow us to apply the misstatement % to last years projected non-cat losses (instead of the Net TP)? **{NEW 29 August 2019}**

A: We recognise that there is an inconsistency between the numerator and the denominator for the calculation of the % mis-statement, and that syndicates with substantial future premiums at year end would receive a higher loading as a result of this. As such, in these cases we would consider adjusting the calculation such that the denominator would be based on Net Discounted Future Costs (cells G26:I26) rather than Total Net Technical Provisions (cells G27:I27). Syndicates should inform us of their preference when submitting the roll-forward template, accompanied by their rationale for the preference selected. We would not expect this preference to change in subsequent years.

Q: The % mis-statement of the TPs is very small - can the loading be removed? **{NEW 4 September 2019}**

A: Any potential loading is rounded to the nearest £2.5m – our intention was to remove immaterial loadings. This is carried out once the % mis-statement is applied to the post-diversified reserve risk; Lloyd's will calculate this once 2020 LCR submissions are received. We suggest agents check the indicative result of the loading calculation using their current 2020 LCR results to see what rounding occurs. It's possible that small mis-statements will result in a loading under £1.25m which will be rounded to zero.

The post-diversified reserve risk will be taken from the Supplementary Questionnaire in the LCR submission.

Q: What should we put in the Impact column? **{NEW 4 September 2019}**

A: If the agent believes some historical mis-statements shown in the LCR Roll Forward template are due to particular reasons at prior 'as at' dates and will not cause differences going forwards, these should be entered in the 'Impact' column and explained in the relevant Commentary column. Examples could be one-off data corrections, or one-off strengthening of reserves between Q2 and Q4 in a particular year.

Q: Some 'noise' or volatility could be reasonably expected in the TP roll-forward. Can the loading be reduced to take account of this? **{NEW 4 September 2019}**

A: If the agent believes the residual difference does not require a change to the TP projection approach, please provide rationale to explain why this is the case and why it wouldn't lead to a change in projection process. Agents could include additional analysis to strengthen their proposal, such as a summary of any validation they carry out on the projected TPs or other governance processes. Please note we may not accept all proposals for a reduced loading and we will take into account the strength of the rationale provided.

Q: Will Lloyd's confirm what the % mis-statement and the final loading will be? **{NEW 4 September 2019}**

A: Lloyd's will review the completed templates and additionally follow an internal peer review process. Our reviews will be done in priority order, with review of syndicates with earlier LCR submissions and CPG deadlines first. Once our review is complete, we will feed back to agents on our proposal for CPG. Once LCR submissions are received, we will calculate the implied loading based on the post-diversified reserve risk supplied by agents. Please note that this loading may be subsequently changed through the CPG process.

Q: Can we apply a self-loading to avoid the Lloyd's loading? **{NEW 4 September 2019}**

A: Yes, we will allow agents to uplift their TPs and SCR to mitigate this issue and avoid a loading being set by Lloyd's. This is purely optional and the default Lloyd's loading approach (which loads the SCR) is as set out in an earlier question above.

Agents will need to uplift their projected TPs (to rectify the % mis-statement indicated in the submitted LCR Roll Forward template) within their internal model. They will need to re-run the capital model and produce new results for the LCR submission.

We will need to review the submitted template and feedback our acceptance of the indicated loading, including any acceptance of reductions due to reasons put in the 'Impact' column. We will endeavour to do this as quickly as possible and will prioritise reviews where LCR submissions and CPG deadlines are closer. We suggest that agents start to work on the new model version in the meantime whilst awaiting our feedback.

Once the model has been rerun, please provide a summary of the following to your Lloyd's Reserving contact and copy in your Lloyd's Capital contact:

- The amount of the increase to the TPs, including the items / COBs / YOAs that have been increased, together with confirmation that this matches the % mis-statement submitted to Lloyd's and subsequently agree with Lloyd's.
- The original and new modelled reserve risk, pre and post diversification.
- The impact on the bottom line uSCR and 1 year SCR.

This new model output should be used to populate your LCR submission. If this requires a re-submission due to the timings involved, please speak to your Lloyd's Capital contact.

We appreciate that for some agents, this option to self-load is very close to their LCR deadline. We are sharing this option now as some agents have recently asked us for it and we want to be open, transparent and fair to all agents, rather than just allowing the agents that suggest it.

Actual vs Plan Test

Process

Q: Will this "One Pager" be pre-populated by Lloyd's?

A: This form has been populated using data available to Lloyd's as at 15/07/2019 with last year's LCR data. Syndicates will use this data when considering their 2020 LCR submission. The test is therefore an indication of the loading if the LCR versus SBF gap is unchanged.

Q: We can't see the Information tab for the Actual vs Plan Loss Ratio test. **{NEW 15 August 2019}**

A. This tab is available in the blank template version of the one-pager, which is available on TPD Secure Store ("Lloyd's Plan vs Actual Test of Uncertainty Template - July 2019") and available at this link.

Q: Where can I see my syndicate specific results? **{NEW 15 August 2019}**

A: Each syndicate has a specific file uploaded to TPD Secure Store. It has the naming convention "SYXXXX_Syndicate One Pager.xlsx".

We have now uploaded an additional file which contains more complete class-level information, to assist agents' analysis of the whole account results. These have the following naming convention: "SYXXXX_Syndicate One Pager Showing All Material Classes.xlsx".

Q: Will this test be applied to Run-Off Syndicates? **{NEW 15 August 2019}**

A: The test will be applied to all Syndicates, although it will be applied to future net premium, so if a Syndicate has none no loading would be applied.

Q: Is this the loading amount that will be applied for the 2020 LCR? **{NEW 15 August 2019}**

A: This loading is purely indicative as it has been populated with last year's LCR data. It is an indication of the loading if the 2020 LCR modelled mean loss ratio versus 2020 SBF loss ratio is unchanged. Therefore Syndicates should consider this when preparing their 2020 LCR submission. If the LCR versus SBF gap changes, the loading will change (and could go from being zero to non-zero).

Q: What will happen to update the numbers for the 2020 LCR? **{NEW 15 August 2019}**

A: This initial indicative loading is currently calculated at the whole account level using 2019 SBF premiums and 2019 SBF loss ratios. However, once the LCRs are received we will re-run and produce an updated version to drive the actual loading. The intention is to share these with agents before discussions and loadings are finalised. The historical actual to plan comparison and class-level differences will not change as they are based on 2012-2017 YOA. However, the whole account results in rows 15 and 19 will change to reflect the weighting according to the 2020 planned premium.

Data sources

Q: How has data been aggregated to Lloyd's classes?

A: All the data has been aggregated up to Lloyd's classes using the risk code mapping attached.

Q: Please can you provide a playback of our TPD data by risk code? **{NEW 15 August 2019}**

A: A TPD playback should already be available for all syndicates on TPD Secure Store at Lloyd's Generic COB level, which should help with any reconciliations. This is based on the original risk code data submitted to Lloyd's.

Q: Why can't I reconcile the TPD data to our internal records? **{NEW 15 August 2019}**

A: The one-pager tables are designed to be indicative. To produce the tables for any items, by Lloyd's Generic class and YoA, where the GNEP or Gross Earned Ultimate is not greater than zero both claims and premiums are removed purely for presentation. The data used to run the process make no such exclusions.

Q: TPD and SBF won't necessarily be on identical bases, in particular TPD will rely more heavily on earned data?

A: This is an accepted limitation of the exercise.

Q: TPD data includes DAC in the gross calculation. This DAC is net of reinsurers' share and may have a material impact on a Syndicate?

A: This Is an accepted limitation of the exercise. If a Syndicate believes this will materially affect them, this should be included in the analyses provided to Lloyd's and provide the impact of this.

Q: Why doesn't the LCR data look as I expect? **{NEW 15 August 2019}**

A: Where the originally submitted 2019 LCR has been superseded the LCR figures in the template may not match your final LCR submission. This won't be an issue for the 2020 update as it will come straight from the new submission. Therefore, please review the numbers in cells D15 and D19 against the most up-to-date LCR. Agents should focus on consideration of what the LCR Modelled vs Plan differences (F15, F19) would be in the 2020 LCR.

Calculation approach

Q: Why is a six year period used rather than any other length?

A: A six year period has been selected to balance the validity of the period in question with the tail of the reserving classes. The six year period used is from 2012-2017, ignoring the most recent YoA. The latest year is expected to be too immature to reflect appropriate actual experience, save for shorter tailed classes that are more prone to event losses, and therefore excluded.

Q: How will Syndicates that have not been active for more than 6 years be treated?

A: The tests will be applied to younger syndicates based on the years they have been active.

Q: Please can you explain how to get to the adjusted whole account ULRs in A15 and A19? **{NEW 15 August 2019}**

A. We set out below a high-level explanation of the calculation approach.

The SBF and TPD data itself is shown in the blue and orange tables at the whole account level (cells A22 – Q37), with and without event classes, respectively.

The blue tables to the right of the whole account tables (columns AA onwards) play back the data for the key driver (adverse) classes.

The selected loss ratio difference is calculated for each class by comparing the historical planning loss ratio against the actual experience. For each Lloyd's generic class of business the SBF is compared with the TPD for 2012-2017 YOAs. Any particularly adverse or favourable 'outlier' years of account are then excluded.

Removal of outliers:

For this process outliers are defined as any years of account by Lloyd's Generic class with a TPD difference deviation from the SBF of more than 4 times (or less than -3 times) the 6-year average; these are removed to strip out particularly extreme experience.

The key drivers (green) table shows the differences on the material adverse classes before and after outlier adjustments are made, on a gross basis. Material classes are defined as making up at least 0.5% of the 2019 SBF premium.

Event driven classes are not considered when calculating the loss ratio differences.

There are then two stages of calculation. The assessment of if a loading is required is carried out in cells A15-H15 and A19-H19. Then the loading itself is calculated.

- Whole account adjusted ULRs (A15, A19): The average historic difference is used to adjust the 2019 SBF plan loss ratio by class. Here, favourable classes are included (credit is given). This provides an adjusted loss ratio for each class (for any event driven class or class with lower than 0.5% of the 2019 SBF Premium no difference is applied). These adjusted ULRs are aggregated up to a whole account using 2019 SBF premium to provide a whole account adjusted ULR.

- This is then compared to the 2019 SBF to imply the difference (cells C15, C19).

  This difference is then compared to the whole account uplift given to the mean modelled loss ratio in the LCR above the SBF loss ratio to see if an additional loading is needed.

- If both H15 and H19 indicate 'No', then no loading calculations are needed.

- Selected loss ratio difference for load (cells I15, I19): This difference comes from a similar calculation but only adjusting the plan loss ratio for adverse classes (no reduction for favourable classes, which are set to SBF loss ratios).

- The general difference between the ‘difference for load’ in I15 and I19 and the entries in cells C15 and C19 is that credit has not been given to favourable classes. In addition I15 is netted down from a gross difference to a net difference.

- The netting down to generate I15 uses the Net to Gross ratio implied from the LCR modelled whole account loss ratios. This is applied to the version of the GNULR difference calculated for the loading to give the netted down difference in I15.

- If either of the tests (gross or net) indicates a load is needed, then the loading will be applied. The maximum of the two loadings from the two bases will be selected and rounded to the nearest £2.5m.

Please note the key drivers (green) table originally only contained key driver classes on a gross basis. We have now produced an updated one-pager form for each Syndicate which contains key drivers on a net basis and also shows all material classes, adverse and favourable. Syndicate-specific files have been uploaded to TPD Secure Store. This is in response to feedback from agents that they would like to analyse the individual classes’ impact on the whole account adjusted ULRs and also test how the 2020 business mix may change it, in advance of receiving the updated template for the 2020 SBF.

We can also provide some additional information on request:

- We can share the COBs and YOAs that are excluded from individual syndicates’ calculations due to being outliers.
- Please let us know if you would like this information and which syndicate you would like it for.

Q: Can we get the class-level information for all our material classes, favourable as well as adverse? **{NEW 15 August 2019}**

A: We have uploaded an updated version of the one-pager to the TPD Secure Store for each syndicate. This contains historical data for all material classes, favourable and adverse. This is in response to feedback from agents that they would like to analyse the individual classes’ impact on the whole account adjusted ULRs and also test how the 2020 business mix may change it, in advance of receiving the updated template for the 2020 SBF.

In the original one-pager summaries the information is as follows:

- The historical data shown in the blue boxes for the key adverse classes does not include favourable classes.
- The classes in the green key drivers table are only historically adverse classes.
- They are then labelled “exclude” if they become favourable after the ‘outlier ‘YoAs are removed.
- The exclusion of the benefit from favourable classes only occurs for the loading calculation in cells I15 and I19. Benefit from all favourable classes is included in the loading assessment in cells A15 and A19.
- In summary – the key driver ‘green’ section did not include any favourable classes, except those that turn from adverse from favourable upon the removal of outliers. This is why the classes shown in the key drivers section did not make up the whole of the 2019 premium volume.

In the updated one-pager summaries with names in the format “SYXXXX_Syndicate One Pager Showing All Material Classes.xlsx” the information is as follows:

- The historical data shown in the blue boxes is included for all material classes, both favourable and adverse.
- The classes in the green key drivers table includes all material classes, both favourable and adverse.
- Loss ratio differences from all of these classes are included in the adjusted ULRs in A15 and A19 to assess if a loading is required.
- The exclusion of the benefit from favourable classes only occurs for the loading calculation in I15 and I19. Classes where the favourable experience is not included for the loading calculation are shown as ‘Favourable’ or ‘Exclude’ in the green key drivers table.

Q: How is the net to gross ratio worked out to net down the gross difference in row 15 of the one-pager? **{NEW 15 August 2019}**

The net to gross ratio is taken from the submitted LCR supplementary questionnaire. It is from tab “PartII_LRSetting_ParamData” and the following cell references are used:

a. “Modelled loss ratio Net net” (L111)
b. “Modelled loss ratio Gross net” (H111)

The ratio is calculated as: $N2G\ Ratio = \frac{\mathrm{a}}{\mathrm{b}}$

This is calculated at whole account level rather than at individual class level, i.e. the netting down is conducted at the aggregate level.

Q: Which Lloyd’s classes have been excluded as “Event Driven”?

A: List of all Lloyd’s excluded classes attached.

Q: Will there be any allowance for rate change or an on-levelling of data?

A: The data compared will be like for like e.g. 2014 underwriting year actual from the 2018 year end TPD submission vs the 2014 underwriting year plan, consequently no rate change allowance or on-levelling is required.

Q: Why is the maximum loading taken from both Gross and Net tests?

A: The maximum loading is selected to ensure syndicates are effectively capitalised and provide suitable validation of the proposed loading on both a net and gross basis.

Q: Why is 4 x CoV used as the measure for volatility and which submission CoV will be used?

This is a simplistic method to calculate a loading applicable across the entire market. Some sensitivity analysis has been done by Lloyd’s around this. The CoV assumption will be taken from the 2019 submission.

Q: Is it not overly punitive to load using the adverse only classes?

A: The assessment of whether a loading is required takes into account all classes. Where a loading is required, there is increased uncertainty from Lloyd’s applying a loading rather than syndicates addressing the issue of uncertainty appropriately themselves.

Reductions to potential loadings

Q: This test will not give any credit for plan loss ratios that have been lifted based on historical adverse performance?

A: Any justification of this nature must be included in additional commentary returned to Lloyd's and provide the impact of this.

Q: Could we get any credit now that our planning loss ratios are based on a more robust approach and are more prudent? **{NEW 15 August 2019}**

A: The test as it currently stands assumes no change in a Syndicate's planning approach. Essentially, the expectation is that Syndicates would account appropriately for uncertainty by adjusting their capital modelling mean ULRs rather than trying to introduce prudence into their planning ULRs.

Beyond this, if Syndicates increase the robustness of their planning process in future to incorporate historical evidence and the uncertainty around anticipated changes to performance, this will emerge in future years' thematic test results.

However, it is possible to discuss any increase to the robustness of the plan ULRs with us as part of this process. Whilst we would not necessarily reduce the loading, we would consider it. However, this would require clear and strong evidence of a changed planning approach and validation of increased prudence in 2019 / 2020 versus 2012-17 plan ULRs. This validation could show explicit risk loads being added into the planning loss ratios, for example, or other clear evidence of a step change in the level of prudence, such as an 'as-if' SBF loss ratio on the old basis compared to the new basis.

Q: Can we request an adjustment to the calculation to use more granular SBF ULRs than those submitted? **{NEW 15 August 2019}**

A: If your actual SBF loss ratios were set during the original planning process at a more granular level, and this is not reflected in our analysis, please provide evidence and information for us to consider. We will only consider more granular SBF ULRs at the level of the Lloyd's Generic class and not below this. This would be in the following situation: if your submitted SBF had the same ULRs across several Lloyd's Generic classes, but at the time you had internal plans to reflect different ULRs in different underlying classes.

Please provide the following:

- The more granular SBF ULRs on a GN and NN basis, split by Lloyd's Generic class and YOA, where relevant.
- A reconciliation between these granular ULRs and the SBF loss ratios we are using in our analysis.
- Evidence from the original business planning process for each relevant underwriting year to evidence that these were the selected plan loss ratios for the relevant classes.

We will only accept these adjustments where we deem the evidence to be strong enough.

Q: If credit is only given for fully exited Lloyd's classes of business there won't necessarily be an allowance for fully exited syndicate classes business.

A: Any justification for exited syndicate classes should be included in the additional commentary returned to Lloyd's and provide the impact of this.

Q: Does the one pager summary pre-populated by Lloyd's as sent to the Syndicate take into account exited classes of business? **{NEW 15 August 2019}**

A: The test is calculated at underlying Lloyd's Generic class of business level based on the 2019 Planned SBF Premium mix. Thus exited classes as per your 2019 plan (which cover a whole Lloyd's Generic class) will be taken into account in the information as presented and are already factored into the pseudo thematic capital loading as shown. However, if an exited Syndicate **reserving** class is at a more granular level than the Lloyd's Generic classes, it will not be automatically factored into the calculation. In this case you would need to provide evidence / analysis of this to us for review. The FAQ attachment has a list of the classes we have used.

The analysis should include a more granular version of our historical comparison of TPD to SBF loss ratios, showing the TPD and SBF loss ratios and premiums of the underlying reserving classes by YOA, on a GN and NN basis, including explanation of the reasons for the differences. Please indicate what implied loss ratio difference you propose to be used for that Lloyd's Generic class, to replace our selected loss ratio difference, after adjusting for outliers (as set out above), on a GN and NN basis.

Credit will not generally be given for non-renewing certain segments, contracts or relationships (i.e. splits more granular than a reserving class), or replacing with unproven new business.

We are unlikely to accept reductions for re-underwriting of business. If you would like to make us aware of a major re-underwriting of a class of business (which represents a completely new approach) please provide information and evidence to support this, including data to show proportion of non-renewed business and the profile of the new business compared to the old.

Q: How can we request an adjustment to the loading to take account of an inwards RITC? **{NEW 15 August 2019}**

A: We are unable to separate business that has previously RITC'd into a Syndicate in the TPD data used for this analysis. If a Syndicate believes the inwards RITC business is not relevant to influence the assessment of uncertainty on future performance against plan, please provide analysis to us.

Please provide re-stated historical data, split by Lloyd's Generic class and year of account showing SBF and TPD data excluding the RITC business, on a GN and NN basis. Effectively, this means re-stating the 'blue' tables for us in the template for the classes affected. Please provide a clear bridging analysis from the original TPD data to this re-stated data, explaining the changes. Please also explain how the RITC business differs from the current business plan and why it should be excluded.

Q: If an SPA has been RITC'd into the main syndicate, how should we adjust for this? **{NEW 15 August 2019}**

A: A situation could arise where an SPA had previously provided outwards reinsurance cover to a Syndicate, but it has now been RITC'd into the host Syndicate. In this case, there could be some double counting for this underlying business. If you would like this to be considered, please provide restated historical data, making adjustments that you believe to be most appropriate.

Please provide re-stated historical data, split by Lloyd's Generic class and year of account showing SBF and TPD data adjusted where appropriate, on a GN and NN basis. Effectively, this means re-stating the 'blue' tables for us in the template for the classes affected. Please provide a clear bridging analysis from the original TPD data to this re-stated data, explaining the changes.

Please provide a full explanation of the adjustments, specifically including how the premiums and claims are treated on a gross and net basis. We are not prescribing the exact approach as it will need a case-by-case basis.

Q: Can we get any credit for rate changes being better than anticipated? **{NEW 15 August 2019}**

A: If rate changes are better than expected in the plan, then this will come through in the historical performance being favourable to plan. We take account of experience on 2012-2017 YOA for the purposes of this particular test. If rate changes have been better than expected on more recent years, such as 2018 and 2019 YOA, this will not directly impact the results of the test. The most important factor is that syndicates have credible assumptions in their plan. If syndicates are too optimistic with rate change assumptions (and hence understate plan loss ratio) this will contribute to the thematic loading in future.

We will not take credit for any expectations that 2020 rate changes will be better than planned.

Q: Can we get any recognition of performance on classes that Lloyd's has excluded as 'event driven' classes? **{NEW 15 August 2019}**

A: We do not intend to make any changes to our list of 'event driven' classes. These are set across the market to exclude classes that have Cat exposure or material large losses. This cannot capture the precise classes affected for each syndicate and is an accepted limitation of our approach. If a Syndicate has suffered natural catastrophe losses for a class that we have not excluded as an 'event driven' class, this can be submitted to us for consideration. Please explain which Lloyd's Generic class this relates to and provide:

- The proportion of the ultimate claims for that Lloyd's Generic class, on a GN and NN basis, relating to natural catastrophes for each year of account
- A breakdown of which natural catastrophes these are, how much is paid, outstanding and IBNR, both gross and net of reinsurance.
- If the reserving class is at a more granular level than the Lloyd's Generic class, please provide a more granular version of our historical comparison of TPD to SBF loss ratios, showing the TPD and SBF loss ratios and premiums for the underlying reserving classes, on a GG and NN basis. Please explain how much of the ultimate claims relates to natural catastrophes for each year of account, gross and net. This is to enable us to calculate a new selected loss ratio difference for the Lloyd's Generic class, if we accept the removal of the natural catastrophe-exposed reserving class.

Please note we may not accept all proposals for additional class exclusions.

Q: Can we submit information on additional large losses that have not been excluded as part of Lloyd's outlier adjustments or 'event driven' classes? **{NEW 15 August 2019}**

A: The process of excluding 'outliers' is designed to remove particularly lucky or unlucky experience. For this process outliers are defined as any years of account by Lloyd's Generic class with a TPD difference deviation from the SBF of more than 4 times (or less than -3 times) the 6-year average. This cannot capture the specific losses that affect each syndicate but has been set at an appropriate level across the market. We will not generally adjust the historical data to remove additional specific losses. If you would like us to consider any special cases where our approach does not work, please provide additional analysis. This could be in the case where the outlier levels on a particular class are extremely small, due to an unusually low average difference. Our expectation is that we will not make a significant number of changes for additional outliers.

Q: Can we get any recognition of performance on the 2018 YOA? **{NEW 15 August 2019}**

A: We have deliberately used 2012-2017 YOA to give a reasonably credible comparison of actual to plan performance. The actual loss ratios on 2018 YOA will not be mature enough for the purposes of this test. We will not give credit for experience on more recent years of account. For example, we do not intend to give credit for over-reliance on BF projections which use SBF loss ratios for IELR assumptions.

SAO Tests

Q: How will these loads allow for where there is a failed test but the QSR is separately loaded for these failed tests?

A: This will be considered as part of the review of any potential loading.

Q: How should syndicates deal with LOD RI premium as this was a key focus for SAO last year?

A: Due to inconsistencies across the market last year, this has been excluded and we have asked that Syndicate submissions are on a consistent basis to their SAO submission.

Q: Will Syndicates be expected to provide retrospective forms, or will this be the case going forward?

A: Syndicates will not have to resubmit prior submissions following this format. The new forms will come into effect going forward for 2019 YE.

Q: Is it not overly punitive to load by year of account rather than on aggregate?

A: There has been no change in approach since last year.

Q: How will Lloyd’s take into consideration the change of mix of business and FX rates at mid-year level?

A: Lloyd’s will allow change in business mix and FX rates for the mid-year tests. The managing agent will be required to provide a summary showing if the loading is required using the unearned loss ratios by class of business from year-end.

Q: Some of the new lines should just be the same as other lines combined?

A: Lloyd’s have observed that the market is not consistent on how all of the entries are completed in the QSR 210 so are asking for these lines to be completed explicitly. Due to inconsistencies across the market on QSR 210 submissions the new lines will remove any ambiguity.

General

Q: For any loading, how will it be allocated across different open years?

A: The Actual vs Plan load will apply to the prospective year. The Roll forward load will be allocated to open years by TP volume. The SAO Tests loading will be allocated to the relevant open years that have a deficiency.

Q: How can I get access to TPD Secure Store? **{NEW 15 August 2019}**

A: Please speak to one of your devolved admins, who should be able to grant you access to the required folder, once you have registered for a Lloyds.com account. If you don't know who your devolved admins are, please contact us at Reserving@Lloyds.com

Any other questions more specific to an individual Syndicate after reading this FAQ should be communicated to your Syndicate Reserving point of contact in the first instance. However, please copy in Ajay.Shah@Lloyds.com and Reserving@Lloyds.com