

CAPITAL TIMETABLE – 2013 SCR RE-ASSESSMENT

Addendum (February 2013)

Please note that we have updated the instructions below to further clarify the requirements for the 7 March LCR resubmissions. The main changes are:

- Lloyd's only expects resubmissions for material (greater than 10%) movements in the SCR to ultimate. Where an agent resubmits the ultimate SCR, they must also resubmit the revised one-year SCR.
- No resubmission is required for a material movement in the one-year SCR, if the ultimate SCR movement is not deemed material (i.e. is less than 10%). In this instance, agents should include a comment in the QMC form 990 of the movement in the one-year SCR and advise their Solvency II Account Manager. Discussions around this number can take place in Q2.
- Resubmissions must be made at the year-end exchange rates (US\$ exchange rate was 1.63), see Market Bulletin Y4660 for all currencies.
- Where no resubmission is required and the current SCR is still valid, agents should confirm this to Lloyd's via form 990 of the QMC.

Previous Instructions (updated)

As previously advised, all agents are required to formally re-assess the appropriateness of the "SCR to ultimate" for 2013 and advise Lloyd's whether there has (or has not) been a material change in the risk profile by 7 March.

As a first step, all SCRs should be adjusted for movements in the US\$ exchange rate from the June rate applied for November CIL (\$1.57) and for the movements in the projected risk margin against actual as at December 2012.

As an example:

Projected risk margin at Dec 2012 per form 312 of the final LCR:	£50m
Actual risk margin per Solvency II balance sheet submitted 7 March 2013:	£60m
Ultimate SCR agreed for CIL – all risk is US\$ based and is \$785m	£500 (at 1.57)
No material change in underlying risk profile	
Year-end exchange rate \$1.63	

Revised ultimate SCR for June CIL purposes:

As before	£500m
Reduction in cnv sterling for US\$ rate change (\$785m at 1.63)	£(18m)
Increase in risk margin of £10m offset against uSCR	£(10m)
Ultimate SCR for June CIL	£472m (at 1.63)

Where there has been no material change in underlying risk, agents should confirm in form 990 of the QMC (due to be submitted on the 7 March) that there has been no material change impacting the SCR and that the current capital level is still valid.

Where there has been a material change in underlying risk, agents are required to submit a full updated Lloyd's Capital Return submission via Core Market Returns. For these purposes, materiality may be assessed as a movement of more than 10% in the aggregate SCR for the whole syndicate.

The minimum steps we expect agents to perform in their review should address the following points:

- Projected net claims and expense reserves per form LCR 312 compared to actual per Solvency II balance sheet
- Projected net premiums for 2013 year of account having considered renewals at 1 Jan compared to final SBF
- Projected rate change / ultimate net loss ratio for 2013 in final SBF compared to latest estimate having considered renewals at 1 Jan
- Projected reinsurance programme costs and coverage compared to actual having considered renewals at 1 Jan
- Projected investment returns having considered actual assets and asset mix at 31 Dec
- Projected premiums and claims reserves by material underlying currency, other than US\$, against actual exchange rates prevailing at 31 Dec

Agents should note that as before, all of these tests may be considered against a materiality threshold of 10% of the aggregate SCR.

The LCR submission should be supported by a brief analysis of change document and the submission should include the risk margin and exchange rate adjustments.

2014 Capital submissions

Agents should note that the LCR has been updated to include some of the quantitative template data provided via excel during 2012 and this has been sent to FinCom and CALM members for consideration.

Agents are advised that the 2013 submission dates are now finalised and are unchanged from those set out in the 2013 Solvency II timetable issued in January:

- 4 July, first SCR submission including SCR methodology document
- 12 (non-aligned syndicates) or 19th September (aligned syndicates), final SCR submission
- 26 September, validation report (with an option to submit methodological/parameter validation update with the 4 July submission)

The LCR will continue to include consideration of both the one-year SCR and "SCR to ultimate". We also expect to include a questionnaire to facilitate a quicker and smoother review and feedback loop.

Full details will be provided in the SCR Guidance to be issued as first draft on 28 February.

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