2015 Process - LCR Specification Changes

The LCR specification changes have been reviewed by the Financial Committee, CALM and the LMA. Each form change is now described, but should you still have any queries on these amendments please contact Lloyds-MRC-Help@lloyds.com

LCR Index –

No changes

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010 – Control Page –

No changes

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012 – LCR Syndicate Type –

1st CHANGE:
Amend the wording on the notes to reflect the specific warnings cells that are going to be turned off when an agent selects the run-off / RITC syndicate tick box.
WHY:
The warnings previously remained in place, which meant run-off syndicates would trigger warnings in cells that they do not need to complete – these will be explained in the form 309 and 313 sections respectively.

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307 LCR Notes –

The notes will be updated by the end of May 2014.

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309 – LCR Summary –

1st CHANGE:
When run-off / RITC syndicate is selected on form 012, the following cells will have the warnings removed:

- A1: One-year Insurance Risk Total after diversification between PR & RR – run-off syndicates will normally only enter RR and the warning triggers if cell A1 equals the RR amount plus the blank PR.
- E1: As above but repeated for the ultimate table.
- A4: One-year Credit Risk Total after diversification between RI Credit & Other risks – run-off/RITC syndicates will normally only enter RI Credit risk and the warning triggers if cell A4 equals the RI Credit amount plus the blank Other risk.
- E4: As above but repeated for the ultimate table.

For each of the four cells run-off agents will still be able to enter the data as required, it is purely removing the warning if they do not enter the data.
WHY:
In most circumstances run-off and RITC syndicates will not have this data to complete. Therefore the warning message is not relevant and deflected attention away from legitimate warnings when under review.

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310 – Balance Sheet Distributions –

- **1st CHANGE:**
  Add the 99.8th percentile distribution on a one-year basis. Please add the following warnings / validations:
    - H1 – validation failure if the 99.8th percentile is less than the 99.5th percentile and a warning if the 99.8th percentile is negative.

  WHY:
  Lloyd's uses the Lloyd's Internal Model (LIM) to demonstrate that it meets ICAS requirements. A key input to the Central Fund capital assessment is the tail risk beyond 1:200 for all syndicates. Obtaining syndicate specific percentile output from agent models in the tail will validate LIM assumptions and provide additional evidence as requested by the PRA.
  NEW AGENT REQUIREMENT:
  All syndicates will need to include this data in the 2015 returns.

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311 – Claims Distributions –

- **1st CHANGE:**
  Add the 99.8th percentile distribution on a one-year basis. Please add the following warnings / validations:
    - H1 – validation failure if the 99.8th percentile is less than the 99.5th percentile and a validation failure if the 99.8th percentile is negative.
    - H3 – add a warning if the ultimate 99.8th percentile is less than the one-year 99.8th percentile.

  WHY:
  Lloyd's uses the Lloyd's Internal Model (LIM) to demonstrate that it meets ICAS requirements. A key input to the Central Fund capital assessment is the tail risk beyond 1:200 for all syndicates. Obtaining syndicate specific percentile output from agent models in the tail will validate LIM assumptions and provide additional evidence as requested by the PRA.
  NEW AGENT REQUIREMENT:
  All syndicates will need to include this data in the 2015 returns.

- **2nd CHANGE:**
  Add the 2015 yoa to table two and amend the 311.2 header text accordingly. As a result the roll forward also amends cells:
    - K(2013):add warning if negative and greater than zero.
    - I(2015): prepopulated from form 312 column H line 2.

  WHY:
  To add the next year of account.

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312 – Projected Solvency II Technical Provisions at time Zero –

- **1st CHANGE:**
  Within line one, add the 2014 yoa reserves with all the same warnings copied from the 2013 yoa.

WHY:
To add the next year of account.

- **2nd CHANGE:**
  Add a validation to prevent negative values being entered in columns A, B, C, H, I, J.
  WHY:
  Negative Insurance losses cannot be included within the Lloyd's model. They require manual edits to be made to make them zero and this has a risk of error and can lead to edits remaining in place when updated LCRs are received.
  NEW AGENT REQUIREMENT:
  All syndicates will be required to complete the insurance losses without including negative values. We know that in some circumstances these are valid amounts, but we are asking that you apportion them over other years or adjust in some way to ensure that only positive values are included. Notes of any adjustments can be included in any documentation or included in form 990.

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313 – Financial Information –

- **1st CHANGE:**
  When run-off / RITC syndicate is selected on form 012, the following cells will have the warnings removed:
    - G1: Remove the warning that assess if the cell value is equal to the aggregate of the one-year CAT losses for LCM region perils and non LCM region splits.
    - I1: as above but for the ultimate table.

  WHY:
  In most circumstances run-off and RITC syndicates will not have this data to complete. Therefore the warning message is not relevant and deflected attention away from legitimate warnings when under review.

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314 – Additional Quantitative Analysis –

- **1st CHANGE:**
  Remove the warnings that assess the reserve risk split to the sum of the technical provisions on form 312 and the run-down of the risk margin at time zero to nil against the sum of the prior year technical provisions on form 312 respectively.
    - A3: Reserve Risk split will still be validated to ensure it is a negative value.
    - G5: the run-down of the opening risk margin from B/S at T0 to Nil at ultimate will still be validated to ensure it is a negative value.

  WHY:
  On reflection the warning put in place for the 2014 process did not reflect the position that syndicates had experienced and the warning was not adding any value to the process.

- **2nd CHANGE:**
  Amend the 1:200 confidence level change in risk margin from T0 to T1 to be a freehand cell rather than an auto-sum of the mean outcome value.
    - I4: Include a warning to ensure a negative value is entered and remove the auto-sum calculation to enable values to be entered.

WHY:
Feedback received from agents suggested that in most circumstances the 1:200 confidence level position will differ from the mean outcome for the change in risk margin from T0 to T1. The ability to enter a value rather than an auto-sum simply allows agents to complete the correct value.
NEW AGENT REQUIREMENT:
All syndicates will be required to complete the 1:200 confidence change in risk margin from T0 to T1.

The 2015 LCR Specification Help Tool spreadsheet, will be updated for the changes detailed in the document and released on Lloyd's.com by the end of May.