LLOYD'S

SPECIAL PURPOSE ARRANGEMENTS (SPA) GUIDE

June 2020

Contents

1 Introduction to Special Purpose Arrangements (SPA)

A Special Purpose Arrangement (SPA*) is a syndicate – it has a Business Plan, a member composition (syndicate stamp), a specific capital requirement and is reconstituted annually. As with market-facing syndicates, all SPA applications need to be approved 'in principle' by the Business Opportunities Committee ("BOC") and the Council as part of the application framework.

The diversity of applications since the model was formally introduced in 2007 demonstrates its flexibility. The SPA model can be relatively straightforward to establish, and where conditions require, has the potential to be set up within a short time frame.

An SPA is not a market facing syndicate, and therefore does not deal directly with policyholders. A Lloyd's SPA only underwrites one contract, being a quota share (proportional) reinsurance of another Lloyd's syndicate, referred to in this guide as the Host.

It is evident that some SPAs have been established for a number of years; nevertheless, an SPA is usually a one, possibly two, year arrangement that can, subject to Lloyd's agreement through the normal syndicate business planning process, be re-offered to members year on year. The participation of the member or members on an SPA will in all cases be on a Limited Tenancy Capacity basis – members will not 'own' the capacity, capacity cannot be traded in Lloyd's Capacity Auctions and managing agents may elect not to re-offer participation in a future year.

Lloyd's at all times reserves the right not to accept an SPA business plan for a subsequent year of account. Specifically, it should also be noted that where an SPA is established as a first step towards the aspiration of establishing a market-facing syndicate in the future, Lloyd's will consider carefully the proposed development of new business into the host (that will be reinsured by the SPA) and may look to agree threshold levels of delivery of the new business. In the event that the agreed threshold criteria are not achieved, Lloyd's can determine that the strategic objective of setting up the SPA is not being delivered and can decline to accept a business plan for the following year.

Prospective applicants are encouraged to read this guide in conjunction with our New Entrant Guide, which gives fuller details on the operation of a (host) syndicate and on the application and due diligence when establishing a corporate member.

The following acronyms are used in this guide:

BOC: Business Opportunities Committee

CCK: Capital Calculation Kernel

CPG: **Ca**pital & Planning Group

ECA: Economic Capital Assessment

FAL: Funds at Lloyd's

RDS: Realistic Disaster Scenario

SBF: Syndicate Business Forecast

SCR: Solvency Capital Requirement

*(Prior to 2016, these syndicates were called Special Purpose Syndicates)

2 SPA Models

SPA models

While the SPA structure – where a Host offers quota share reinsurance participation to an SPA - is straightforward, the model has been successfully applied in a number of different ways. The following table sets out the four main uses of the SPA model:

1. Capacity Management

- A means to secure third party short term additional capacity (to support a mid-year pre-emption of the Host) or to restructure existing capital support for the Host;
- Ultimate (final) RITC likely to be back to the Host.

2. Capital Management

- A means of introducing third party capital support to the existing Business Plan, either supporting the whole account or selected classes;
- Arrangement may be short or long duration;
- Ultimate (final) RITC likely to be back to the Host.

3. Reinsurance / Risk appetite

- A means to manage the risk appetite of the Host;
- Arrangement usually short-medium term duration;

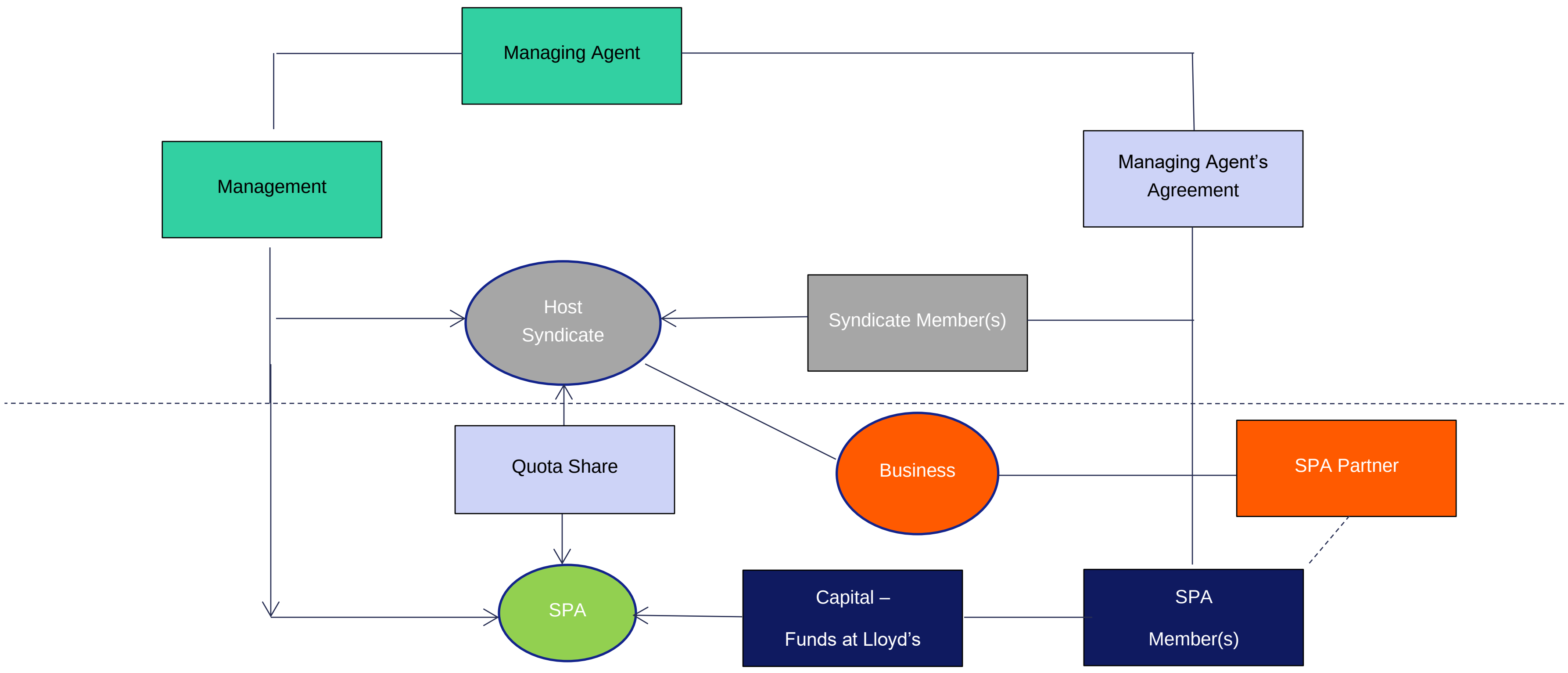
Ultimate (final) RITC likely to be back to the Host.

4. Partnership / reciprocal business arrangements

- A means whereby a third party establishes a presence as a first step towards a standalone syndicate;
- Arrangement will be medium to long term;
- Ultimate (final) RITC likely to be to the new syndicate.
- *Lloyd's agreement to this model does not infer Lloyd's will accept a 'standalone' syndicate application in the future*

For models 1, 2 & 3, where the SPA is reinsuring existing business from the Host, the arrangement will be structured as below, *excluding the orange shaded elements*

For model 4, the arrangement includes the introduction of new business into the Host from the partner. This business may be included within the SPA Quota Share reinsurance, or may be retained by the Host, as a reciprocal business exchange



FAQ	Responses
Can an SPA commence at any time during the year?	Yes. The SPA model was originally developed to facilitate an alternative to a mid-year pre-emption for a syndicate with mixed capital (eg. as a result of improved underwriting conditions following a major market event or series of events).
What is the usual duration of SPA arrangements?	An SPA offer of participation will be short term, usually limited to a maximum of 2 years: SPA participation can be re-offered for subsequent years, subject to Lloyd's approval of the Host and SPA Business Plans; Lloyd's retains the right not to agree an SPA Business Plan for any subsequent year, notwithstanding the parties' intentions for a longer term arrangement.
From where can an SPA source its business?	An SPA only underwrites a single quota share (QS) reinsurance of the Host, an existing Lloyd's syndicate; However, the SPA QS may comprise; - a share of the Host's whole account - different shares of selected classes of business within the Host's whole account - business introduced to the Host by the SPA partner - a mix of existing Host business plus up to 80% (or such other percentage as may, in exceptional circumstances, be agreed by Lloyd's) of business introduced by the SPA partner The short term nature of an SPA means it may not be viewed as an appropriate structure to reinsure accounts with a material long-tail element.

3 Members' underwriting on an SPA

3.1 Underwriting participation

The framework under which members underwrite on an SPA is no different from that to underwrite on a market-facing syndicate. Only approved Lloyd's underwriting members can take up a share of an SPA, and there is no difference in Lloyd's requirements applied to them. Members can participate solely on an SPA, or can underwrite shares of both market-facing syndicates and SPAs.

For models 1-3, the offer to members to underwrite on an SPA is made by the Managing Agent. For model 4, as the description suggests, the opportunity to underwrite on such an SPA will arise through the broader partnership arrangement between the Managing Agent and the SPA partner.

In all cases, the option to underwrite on an SPA will most usually be given for one year of account, although two years, or a rolling two year arrangement, are acceptable. Lloyd's will consider different proposals. However, all SPA arrangements are of short-term duration and agreement to an SPA does not in any way infer that Lloyd's will agree the SPA Business Plan for the following year, even though that may be the intention of the parties. Nevertheless, the SPA participation arrangement between the parties may, with Lloyd's approval of the SPA Business Plan, continue to be re-offered for a number of years of account.

FAQ	Responses
Can SPA capacity be traded in Lloyd's capacity auctions?	No. SPA capacity can only be offered on a short-term, limited tenancy and non-tradeable basis.
Can an SPA member participate (underwrite) on other syndicates?	Yes. SPA participation is no different from participation on a traditional, market-facing syndicate and members can underwrite on a "spread" basis; Lloyd's models all spread members' capital requirement through the same Member Modelling system.

3.2 SPA member(s) and the Managing Agent

Underwriting participation (referred to at Lloyd's as capacity) on an SPA may be offered to any new or existing Lloyd's member, or group of Lloyd's members (trade-backed or private capital).

There are two principal legal agreements necessary to establish an SPA.

Each member of the SPA will enter into a Managing Agent's Agreement with the Host/SPA Managing Agent. This is a standard form Lloyd's agreement that governs the role and obligations of the agent to manage the member's underwriting.

The second agreement is the quota share reinsurance contract between the Host and the SPA. The contract will define the classes and proportion(s) that the SPA will reinsure.

3.3 The Quota Share reinsurance between the SPA and the Host

The quota share is the only means by which the SPA underwrites business. An SPA is not permitted to accept business through any other means.

FAQ	Responses
How does the SPA Quota Share operate?	Lloyd's has a model QS wording on which Lloyd's expects the final contact will be based; Business is to be ceded to the SPA in a pre-determined proportion: an SPA is not a surplus lines OR 'optional cession' facility; Lloyd's requires the Host to retain a minimum of 20% of business being reinsured by the SPA (except in exceptional circumstances as may be agreed by Lloyd's); All SPAs to date operate on a "funds withheld" basis. It is possible to operate on a funds disbursed basis, although this will necessitate setting up Premium Trust Fund accounts for the SPA; The QS may include or exclude the Host's prior years' Reinsurance to Close.

3.4 SPA member default risk

The Lloyd's Central Fund (CF) is available at the discretion of the Council to meet the underwriting liabilities of all members. In the event a member's Funds at Lloyd's are exhausted, the CF will (subject to Council's approval) continue to meet the member's valid obligations to policyholders. This applies equally to SPA members. Nevertheless, in the case of SPAs, Lloyd's reserves the right to adopt a different approach as a protection for the CF if it considers this to be prudent. Any alternative position will be considered, discussed and fully articulated before the SPA arrangement is formally approved.

Without limitation, measures to protect the CF might include:

- SPA Member(s) default risk passes back to the Host;
- Loaded SPA capital requirement
- SPA stop loss reinsurance

4 The SPA application framework

4.1 What Lloyd's is looking for in new SPAs

In submitting an SPA proposal, you will need to provide a robust rationale for adopting this structure. You will also need to demonstrate that the proposed Business Plans for the Host and the SPA are realistic and achievable and that the Managing Agent has the capability to deliver both plans.

Lloyd's suitability criteria will focus on:

- The stated strategy and risk appetite of the Host;
- The nature and quality of the Host's Business Plan;
- The nature and quality of the SPA business proposal and plan
- The risk appetite and strategy of the SPA capital;
- The rationale behind the selection of an SPA as the proposed structure

In deciding whether to approve an SPA application, Lloyd's will take into account all relevant considerations. This will include but is not limited to:

- Whether there is a viable level of premium into the SPA;
- The risk and impact of not achieving projected income;
- The effectiveness of the management of the Host;
- How long the Host has been trading;
- What class, or classes, of business are proposed to be reinsured by the SPA.

FAQ	Responses
What is the approval process for an SPA?	SPA applications have to secure "in principle" approval from the Council; There then follows the "Making it Happen" (MiH) stage, which for an SPA focuses on the contractual, operational and administrative aspects of a new business. The MiH stage includes formal agreement of the SPA and Host syndicate's Business Plans; Lloyd's will determine what level of minimum standards compliance review might be required; Once all MiH requirements have been met (please refer to the SPA 'Toolkit' on page 10). The Business Opportunities Committee will consider formal approval for the SPA.

5 Application process – toolkit

The following table sets out the Lloyd's application stages:

Stage 1:	Enquiry – Proof of concept
Stage 2:	High Level Pitch (HLP)
Stage 3:	Detailed Plan presentation to the Business Opportunities Committee (BOC)
Stage 3A:	Model indicative capital requirement
Stage 3B:	Capital and Planning Group (CPG) reviews initial Business (Underwriting) Plan
Stage 4:	Seek "in principle" approval (Lloyd's Business Opportunities / the Council)
Stage 5:	Making it Happen (may include a review of compliance with Lloyd's Minimum Standards)
Stage 6a:	Business Plan and Economic Capital Assessment (SCR/ECA) (capital) – full review and agreement (Capital and Planning Group)
Stage 6b:	Agree output of Minimum Standards Review
Stage 6c:	Formal approval – Business Opportunities Committee

5.1 SPA and Lloyd's Minimum Standards

The Managing Agent of the SPA will be the Managing Agent of the Host. Lloyd's has a view on every Managing Agent's capabilities through our current minimum standards assurance work. In order to progress a particular SPA proposal, the Managing Agent will need to demonstrate that there are no unresolved Minimum Standards issues.

As part of Lloyd's consideration of an SPA proposal, the Capital and Planning Group (CPG) will consider whether the management of an SPA requires any enhancements to the Managing Agent's current compliance with Minimum Standards. It follows that any Minimum Standards review work is most likely (but not exclusively) to arise through a Partnership (Model 4) arrangement where new business is introduced to the Host.

This approach is considered both prudent and risk based for the following reasons:

- This will only apply to developments in the Host Business Plan that pose the greatest change in capabilities;
- The onus will be on the Managing Agent to have carried out its own self-assessment of the Syndicate Business Forecast (SBF) and Minimum Standards;
- Lloyd's needs to maintain assurance of the Managing Agent's continuing compliance with Minimum Standards
- Lloyd's can be clear to agents about what is expected if any standards review work is carried out;
- CPG can gain comfort that there are no capability showstoppers when agreeing the Host and SPA Business Plans.

FAQ	Responses
What review will Lloyd's undertake in connection with Minimum Standards?	The level of Standards review required will depend on the SPA model; Where the SPA QS reinsures the Host's whole account, we envisage that little or no Minimum Standards review work will be necessary; If, however, business introduced by an SPA partner extends the scope of business or the scope of distribution currently within the Host, Lloyd's will determine what focussed Minimum Standards review work may be required through the SPA application.

6 The SPA Business Plan, reinsurance and capital setting

6.1 SPA Business Plan

The Host's Managing Agent will have to submit a full Syndicate Business Forecast (SBF) for the SPA to Lloyd's in the same way as for a market-facing syndicate. The Syndicate Business Forecast (SBF) will be subject to the usual review and agreement process through the CPG.

Where the SPA underwrites QS of the Host's whole account, the level of review will reflect the fact that both portfolios are different proportions of the same business. Where the SPA portfolio differs from that of the Host (whether because the SPA portfolio comprises only selected classes of the Host's plan, or because the SPA only reinsures business introduced into the Host) the SPA SBF review will be as detailed as that for a market-facing syndicate.

FAQ	Responses
What is the impact of an SPA on the Host SBF?	The Host will need to (re)submit its SBF to take account of any new inwards business and the outwards cession to the SPA. At its simplest level, the SPA arrangement is one of the syndicate's overall outwards reinsurance placements, and as such the gross (SPA) premium needs to be included in the host's 'gross, gross' premium in the business plan; syndicates don't net down gross income to account for any other outwards reinsurance. The capacity of the host syndicate should take into account the 'gross, gross' premium figure. Prior to presentation to The Council (see below), the CPG will need to consider and comment on any revisions to the Host's SBF arising from the SPA proposal; CPG's broad acceptance of the revised Host SBF is a pre-requisite for development of any SPA proposal.
What does an SPA have to deliver in terms of an SBF?	Prior to presentation to The Council, the CPG will need to consider and comment on the proposed SBF for the SPA; The SPA SBF will need to be submitted via the Market Data Collection (MDC) via the SPA number, which Lloyd's will confirm; The level of review will be primarily determined by how much the SPA business plan varies from the Host's SBF, and what new business might be introduced to the Host and ceded to the SPA; CPG agreement to the SPA SBF is a pre-requisite for development of any SPA proposal.

6.2 SPA Reinsurance

The outwards reinsurance protection for an SPA is a matter of agreement between the Managing Agent and the SPA member(s). The SPA business can receive benefit from the Host's outwards reinsurance programme or the Managing Agent can arrange for SPA-specific coverage.

In the normal way, the SPA's SBF will need to reflect the cost and benefit of whatever reinsurance arrangements are agreed.

6.3 Calculating the Solvency Capital Requirement (SCR) for an SPA

From January 2016, Lloyd's capital at syndicate level is set in accordance with Solvency II requirements. Lloyd's Internal Model (LIM) was approved in 2015 and all Managing Agents are Solvency II compliant. An SPA is required to have an approved internal model that meets all Solvency II modelling and validation requirements (as set out in the minimum standards). Alternatively, the SCR will be set by Lloyd's benchmark model. An SPA must be fully validated; the same level of validation and validation guidance which applies to a syndicate also applies to an SPA.

However, where appropriate, the SPA can make use of the host's validation test results eg. where the SPA subject matter business is a whole account quota share reinsurance of the host.

FAQ	Responses
What is the impact on the Host's capital requirement through introducing an SPA?	The Host's capital requirement will reflect the benefit of the outwards reinsurance although, as with any reinsurance arrangement, outwards reinsurance carries an element of dispute / credit risk. If the SPA is a mid-year start, the Managing Agent will need to present a revised SCR calculation for the Host.
How will the SPA capital requirement be set?	The Managing Agent can provide a modelled Solvency II compliant SCR – including validation; OR Lloyd's will model the SPA capital requirement on the benchmark model. In either case, CPG will agree the SPA capital requirement. Where an SPA only reinsures selected classes of the Host's business and as a result has a materially different risk portfolio to the Host, particularly if driven by new business introduced by the SPA partner into the Host, Lloyd's will consider the SPA to be essentially a new business. As a result, Lloyd's will assess whether it is appropriate to apply the 20% new business capital load. Where an SPA is supported by existing "spread" members, these members will be entitled to 'spread' portfolio diversification allowance, calculated in the usual way through the member modelling software.

6.4 Lloyd's approach to setting/benchmarking the SCR for a new SPA

When the timing is appropriate, Lloyd's will discuss with the managing agent the approach to capital modelling. This will depend on whether the SPA Business Plan mirrors, or is very similar to, the Host business or whether the SPA portfolio differs materially from that of the Host.

Year 1 capital setting:

Full year Business Plan: The capital modelling submission for a new SPA that commences trading on 1 January comprises:

- a one year SBF set out by Lloyd's risk code and by currency;
- a preliminary indication of the catastrophe risk within the proposed SPA's plan during the first year, based on Lloyd's RDS (Catastrophe return)

For modelling purposes Lloyd's may factor in 'as if' or 'hypothecated reserves' for two years prior to the start year. The main reason for hypothecation is to avoid material year-on-year increases in the FAL requirement which would otherwise occur as a result of growth should the SPA be a multi-year venture. Alternatively Lloyd's may calculate a "one year only" capital requirement. The approach to be adopted will be determined in part by whether the SPA is viewed as a one year only arrangement (eg. to facilitate a mid-year pre-emption on a mixed capital syndicate) or as a multi-year arrangement.

Mid-year start – part year Business Plan: Where an SPA starts underwriting at Lloyd's part-way through a year of account ('mid-year start') Lloyd's requires the same SBF and Catastrophe return. However the SBF premiums are likely to need annualising. This annualisation must reflect the anticipated distribution of premium written through a normal year (ie, if 60% of premium would be written in the first 6 months, a £40m half year premium would annualise to £100m).

Factors affecting an SPA's year 1 SCR/ECA

Fixed:

- **ECA uplift:** All Host and SPA SCRs are uplifted by a common factor to raise the SCR At present the uplift is 35%:
- **New SPA load:** The modelled ECA (SCR plus 35% uplift) for all new SPAs may attract the 20% new business (syndicate) load.

Variable:

- **Business mix:** The SCR for a SPA's Business Plan that is focussed on a limited number of lines (classes) of business is less diverse and may result in a higher SCR;
- **Volatility of business:** An SBF focussed on more volatile (eg. catastrophe exposed) business in more volatile geographic locations may result in a higher SCR;
- **Lloyd's risk history:** The CCK track record utilises the Market's prior years' underwriting experience by class of business. The inclusion of classes of business with a poor historic performance may result in a higher SCR.
- **Hypothecated reserves:** To avoid large yearly increases in the FAL requirement. The introduction and level of hypothecated reserves will be determined by the nature of SPA being set up;
- **Mid-year start:** Projected part year premium may be a disproportionately low proportion of the annualised year 1 premium figure.

Year 2 capital setting:

The basis on which an SPA's year 2 capital will be set will be determined by the proposed RITC of the SPA's first year.

If the proposal is that the SPA will Reinsure to Close (RITC) back to the Host for each year of account, the Lloyd's approach to the second and subsequent SPA capital setting will be on the basis that each year is treated as a first year.

If, however, it is the intention that the SPA assumes its prior year liabilities (see separate section on RITC in this guide), Lloyd’s can also model the SPA’s second year capital at the appropriate time. The actual approach to be adopted will be determined through discussion with the team in Lloyd’s.

If the SPA is to adopt the latter approach and assume its prior year of account liabilities, the first year’s annualised exposures will be modelled as the most mature year. The “year two” exposures will be assumed for the proposed and current years of account.

6.5 New SPA – modelling indicative capital requirement

Lloyd’s can model (a limited number of times) an indicative year one SCR for a new, or continuing, SPA. In order to do so, the applicant will need to provide a prospective one year underwriting plan. At the appropriate time (for a new SPA, the earliest being when the BOC has agreed to move the proposal to the Detailed Plan Presentation stage) Lloyd’s can provide the relevant template (in Excel) for completion).

The required level of detail in the Template is:

- Gross premiums (outwards) reinsurance premiums and expenses
- By Lloyd’s risk code
- By major currency
- Administrative expenses
- Forecast aggregate exceedance probability and RDS numbers

Applicants should note that September to November is a peak period and existing syndicate modelling work will have to take priority over new SPA capital modelling.

6.6 Determining a member’s capital requirement

The amount of FAL that a member is required to lodge with Lloyd’s is derived from the agreed ECA for each syndicate and/or SPA on which that member participates. The capital requirement for a member that only supports one SPA will be determined by the member’s premium limit of the SPA as a proportion of the SPA’s total capacity. A member’s premium limit is the maximum amount of insurance premiums the member can accept, gross of reinsurance but net of brokerage.

Spread members participate on more than one syndicate/SPA and therefore usually underwrite a more diverse portfolio of business. To help determine a spread member’s capital requirement Lloyd’s provides Member Modelling Software (Member Modeller). This allows members’ agents or members to model how much capital is necessary to support participation across a given spread of SPAs.

For Lloyd’s “Coming into Line” purposes, the Member Modeller (MCAT) takes into account a member’s proposed premium limit for all syndicate/SPA participations for that member, along with the member’s participations on all naturally open underwriting years of account.

MCAT modelling also takes into account a member’s participation on any unnaturally open years on syndicates or SPAs. Unnaturally open years are years of account which have not been closed at 36 months by the Reinsurance to Close (RITC) process.

The capital requirement that MCAT determines is subject to a minimum FAL requirement. This is currently set at 40% of a member’s overall premium limit, although it should be noted that this level of diversification is increasingly unusual.

6.7 Fees and charges to Lloyd's and the Managing Agent

Lloyd's application fee for an SPA is currently £75,000. We will invoice you for the application fee when the BOC has agreed to submit your proposal for 'in principle' approval from the Council.

Lloyd's central charges are levied on the Host's gross premiums. The Managing Agent and SPA member(s) will agree in advance whether the Managing Agent will recharge the SPA share of fees and charges to the SPA, or will recover them through an overrider in the quota share agreement.

The SPA member's Central Fund levy will be charged to the Host. New members supporting the SPA will be charged at the higher rate (1.4% on gross premiums) for three years.

In addition to any overrider and fees charged against quota share premiums, SPA members may also be required to pay the Managing Agent a fee and profit commission through the Managing Agent's Agreement entered into between the SPA member(s) and the Managing Agent.

The level of fees and profit commission under the quota share and under the Managing Agent's Agreement is a matter of negotiation between the parties.

6.8 Reporting

The SPA quota share is reported as UK reinsurance business and therefore SPA reporting does not need to consider external reporting to overseas authorities which is undertaken on a "gross" basis at Host level.

In terms of reporting to Lloyd's, it should be assumed that the Managing Agent will need to provide the full suite of reports. It is possible that in certain cases (eg. where the SPA quota share underwrites a proportion of the Host's whole account) Lloyd's may agree a reduced level of reporting if the Host and SPA business are the same.

7 SPA Reinsurance to Close

7.1 Lloyd's expectations

The principles and requirements that apply to the Host RITC apply equally to an SPA (as prescribed in Performance Management: Supplemental Requirements and Guidance). Closure of the SPA year of account and settlement between the parties should ordinarily coincide with the closure of the Host's corresponding year of account. However the fact that, to date, all SPAs are managed on a "funds withheld" basis drives an enhanced process particularly if the parties' intention is that a subsequent SPA year of account assumes its share of the SPA's prior year RITC liabilities.

7.2 SPA RITC options

There are three RITC paths for an SPA. Through the application framework, Lloyd's will seek assurance of the proposed path, which should, where relevant, be reflected in the SPA QS wording.

7.2.1 A - RITC back to Host

The first option is for each SPA year of account to RITC back to the Host. This is the more straightforward arrangement. The Managing Agent will determine the SPA RITC premium which is accounted back to the Host, coinciding with the Host effecting its RITC (and payment of the premium) to the following Host year of account. The funds withheld arrangement between the Host and SPA must be brought to an end simultaneously with any RITC payment from the SPA to the Host. This allows the Host to release funds for the purpose of the SPA settling its RITC premium due to the Host and the balance remaining can be paid to the SPA members as profit (if any). Through this option, the SPA member(s) carry no practical or regulatory future obligation for, or benefit from, the performance of the run-off of the RITC'd SPA year(s) of account.

7.2.2 B - SPA RITC's its prior year liabilities

The second option is for the following SPA year of account to assume the SPA's prior year's liabilities. However, unless the SPA has its own PTF to receive the RITC premium into the new year of account, it is not possible under Lloyd's requirements for an SPA operated on a funds withheld basis to RITC directly into the subsequent year of the SPA.

In order to address this, the mechanism for closing initially follows the first option (above). The Host will then effect its RITC as normal to the following year of account. The additional step is that the members of the subsequent SPA year of account then assume the SPA closed year "RITC premium" (and obligations) through that subsequent year's quota share contract. The model QS contract provides suitable wording that can be used to achieve both the first and second options.

If the SPA establishes its own separate PTF account into which the SPA transactions are accounted, the SPA is able to RITC one SPA year into the subsequent SPA year without the above accounting complexity.

7.2.3 C - SPA goes into run-off

Despite there being a stated RITC path at the time an SPA is established, circumstances may subsequently change which change that path; this is likely to be the case for SPAs that have been established under the Partnership model.

In these circumstances it is important that the managing agent contacts Lloyd's at the earliest opportunity to discuss the options available. Such options might include commutation of the SPA quota share or third party RITC. Where an SPA solely reinsures a host syndicate's whole account, or specified classes of the host's business, Lloyd's expects the SPA RITC will be written back into the host.

FAQ	Responses
Does an SPA year of account have to RITC at the same time as the equivalent Host year of account?	In the majority of cases Lloyd's expects the SPA will RITC at the same time. However, where there is material uncertainty, the RITC of the Host and the SPA may not coincide. Examples include: (i) Adverse development of a Host open year of account that preceded the SPA arrangement or;

	(ii) Where the Host and SPA portfolios differ, leading to materially different performance experience;
Can an SPA establish its own PTF account(s)?	Yes, although the “funds withheld” arrangement operates more successfully in areas such as cash flow and enhancing investment returns for the SPA member(s)
Can an SPA operate initially on a “funds withheld” basis and then move to “funds disbursed”?	This is possible and would give rise to a more easily accounted SPA RITC process. Accordingly, an SPA year of account could be accounted on a funds withheld basis for, say, 10 quarters, and then the managing agent establishes PTF accounts for the SPA so that subsequent quarterly accounts could move to a funds disbursed basis.

Disclaimer

We have written this document ("The Guide") to provide you with some general information. To the best of our knowledge, this information is correct at the date of publishing, but it may change.

Regulatory Disclaimer

1. We do not intend the information and services in this Guide to be distributed to, or used by, any person or entity in any jurisdiction or country where this would be against laws or regulations. In particular, this Guide is not an offer of information, products or services to US persons or in the United States, or in any other jurisdictions where such an offer may be against the law.

2. This Guide is not a prospectus or invitation soliciting capital, Lloyd's membership or participation on any Lloyd's syndicate. It is not an offer to sell securities or insurance, a solicitation of an offer to buy securities or insurance, or a distribution of securities to US persons or in the United States, or in any other jurisdiction where this is against the law. Those persons should make sure they follow any applicable legal requirements.

3. This Guide provides information on Lloyd's and how to get authorisation to form a new underwriting business here. It does not describe every aspect of how Lloyd's makes decisions about applications. Lloyd's will consider all applications on their own merits.

4. Neither the Society of Lloyd's, the Council, any other Committee or Board constituted by the Society of Lloyd's or the Council, nor any of their respective members, officers and advisors, accepts any responsibility or liability for any loss to any person who acts or does not act as a result of any statement, fact, figure or expression of belief in this Guide.

5. Before you apply, you should make sure you understand Lloyd's, and the implications of participating in the Lloyd's market. You should understand that risk is the nature of insurance business and is inherent in the business underwritten at Lloyd's.

Confidentiality and Copyright

This Guide is confidential and should only be used within organisations that we provide it to.