

**FROM:** Director, Franchise Performance  
**LOCATION:** 86/G5  
**EXTENSION:** 6711  
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**REFERENCE:** Y3060  
**SUBJECT:** **2004 ANNUAL FRANCHISEE BUSINESS PLANS  
(INCORPORATING SYNDICATE BUSINESS  
FORECASTS)**

**ACTION POINTS:** **Managing agents to note**  
**DEADLINE:** **20 June and 1 August for submission of "SBF"  
information for all syndicates**  
**12 September 2003 for submission of "AFBP" information  
from non-aligned syndicates**  
**15 October 2003 for submission of "AFBP" information  
from aligned syndicates**

## **1. Purpose**

The purpose of this bulletin is to advise managing agents of the requirements for business planning information in respect of the 2004 year of account.

Managing agents are required to produce business planning information in respect of each active syndicate for the 2003 and/or 2004 year of account.

## **2. Development strategy**

A new business plan template was introduced for Annual Franchisee Business Plans ("AFBP's") for the 2003 year of account planning process. It was intended to develop an Access based template for the 2004 year of account process. However, following consultation with a number of users both within the market and the corporation, a number of issues have been identified that need to be addressed. In order to address as many of these as is possible for the 2004 planning process, it has been decided that the development of the Access based version will be delayed. As a result, the 2004 template will be an excel application, similar to that used last year.

The AFBP template issued last year included much of the information that has in recent years been collected via the Syndicate Business Forecast ("SBF"). It is clear from the consultation that there is a need to merge the SBF and AFBP together. This will be done for the 2004 planning process, and the remaining information needs have been included in the template.

There were also issues raised during the consultation about the timing of information from syndicates not involved in the auction process. As a result it is proposed that non-aligned syndicates will continue to complete the “SBF” return in June and AFBP by September 12 2003. However, aligned syndicates will be able to submit a reduced data feed for the RBC model in the June submission, updated for significant changes in September, with the AFBP being returned by 15 October 2003.

A timetable is attached at Appendix 1.

It is anticipated that the template to be used for the June submission will be available shortly. Compliance officers will be notified when it is available. This will allow submission of all the information required for the June submission, but may have some elements of the full AFBP outstanding. Once these outstanding sections have been completed, the final version of the software will be issued for use in the full AFBP return, pre-populated for each syndicate with any data already submitted.

Please note that, in keeping with recent changes to premium income reporting, the new template will require details of premium income gross of acquisition costs.

### **3. Pre-emptions & De-emptions**

The pre-emption and de-emption processes will form an integral part of the 2004 business planning process. Further details will be issued shortly in a separate bulletin.

### **4. Related party transactions**

Applications for consent to transact inwards or outwards reinsurance business with a related party and transactions relating to the acquisition of an interest in a related insurance company should be made as part of the business planning process. For all related party transactions the information requested in the appropriate sections of the template should be provided. This information is **not** required for the June submission.

Submissions in respect of consent for inwards or outwards reinsurance business for the remainder of 2003 should be made to Admissions and include the same information as required by the AFBP. There is no longer a requirement to submit the related parties return in August 2003.

### **5. June Submission – Formerly Syndicate Business Forecasts (“SBF’s”)**

**The relevant information must be submitted no later than 20 June 2003.** The information required is very similar to that required in previous years. The significant change is that financials are required at class of business level, as in the AFBP last year, rather than at risk code level. The premium income by risk code and currency feed for the RBC will be derived from the class of business data and risk code mapping submitted.

The co-ordination of the software will be handled by Information Services, MSU (“MSU”). Downloading the software and collecting the returns will occur via the Market Returns L-Net website. Managing agents should return a single zipped file per syndicate, and further instructions will be included within the template. MSU will collate all returns and send data to supporting members’ agents, direct corporate members, and the relevant departments

within the corporation, including the Market Risk and Reserving Unit for inclusion in the Risk Based Capital (“RBC”) model. This information should be sent to individual members of syndicates should they request it. Revisions, updated for material changes, are required to be submitted on 1 August. This information, updated as necessary will then form part of the requirement for the complete AFBP to be submitted on 12 September 2003.

## **6. September submission - Annual Franchisee Business Plans (“AFBP’s”)**

**Full Annual Franchisee Business Plans should be submitted by no later than:**

**12 September 2003 – for non-aligned syndicates**

**15 October 2003 – for fully aligned syndicates, (though any material change to figures supplied in the June submission should be notified by 12 September 2003 in order to feed the RBC model).**

The co-ordination of the returns will be handled by Information Services, MSU (“MSU”). The updated software containing the full requirements can be downloaded from the Market Returns L-Net website. Returns should also be submitted to Lloyd’s via this website. Returns will then be collated and data sent to the relevant departments within the Corporation. The updated software will be available in due course.

Following receipt of the business plans, Lloyd’s will arrange meetings to discuss the contents with the Chief Executives of managing agents in September and October 2003.

However, it is intended that members of the Franchise Performance team will arrange meetings with relevant managing agency personnel in order to discuss and review the progress of the business planning process as soon as is practical in advance of AFBP submission.

## **7. General**

The 2004 template is an Excel workbook. Each section of the plan sits within a separate sheet within that workbook. This simplistic approach to construction has been taken in order to provide the quickest possible environment in which to develop the return.

Each section is intended to be self-contained, and therefore there is no requirement for a user manual. Each section will indicate whether information is required in a prescribed format (for example complete a data table) or can be submitted in alternative formats (for example the attachment of a Word document, Powerpoint presentation etc).

The spreadsheet contains macro’s, and there will be a message flashed onto the screen when the workbook is opened. Please click “Enable macro’s” to allow the functionality to work.

Where there are data tables or text boxes in the workbook, it may be necessary to increase their size in order to print the document. To do this either use the normal Excel functionality or use the buttons placed immediately to the right of each table or box.

Worksheets can be printed off using the normal Excel functionality. Alternatively, there is the option to print any combination of sheets simultaneously, which is available on the “printing” sheet of the template.

## **8. Exchange Rates**

Please use the PIM exchange rates throughout this document. PIM rates for 2004 are attached as Appendix 2 to this bulletin.

## **9. Issues currently being addressed**

### **9.1 Materiality & resubmission**

In the event of material changes to the AFBP after submission, syndicates should notify Franchise Performance Directorate of any material revisions and resubmit the Plan to the MSU via the Market Returns website.

Consideration is currently being given to an appropriate definition of materiality. Further details will be provided in due course.

### **9.2 The approval process**

As stated above, every Managing Agent will be visited in September or October 2003 to discuss the plans relating to its managed syndicates. Following on from these meetings and the review of the information included in the plan and gained at and as a result of that meeting, plans will be discussed internally and approved by the Franchise Performance Directorate where appropriate. Where approval cannot be given immediately, discussions will take place to ensure that syndicates and agents are aware of areas of concern as early as possible.

### **9.3 Guidelines**

The guidelines set out in the Chairman's Strategy Group consultation document are currently being reviewed. This review should be completed by August 2003, at which time the market will be notified of any changes to guidelines, along with details of the way in which they will be applied.

### **9.4 Qualifying Quota Share ("QQS")**

Lloyd's is still discussing its approach to QQS for 2004 and has not yet commenced consultation with the LMA. However, our current thinking is to reduce the maximum allowance for QQS from 20% to 10%.

Additionally, Lloyd's approval will be required before ANY QQS arrangement can be entered into. At this stage in the insurance cycle Lloyd's would expect QQS to be used only where there are excellent underwriting prospects. We will also be keen to ensure that QQS arrangements are not used for capacity leverage.

For June submissions, syndicates intending to use QQS as part of the 2004 year of account capacity, should include these figures in the relevant sections of the template. It should be noted, however, that the ongoing discussions could have a fundamental bearing on the final submissions required in September, which would include any application for QQS for the 2004 year of account.

## **9.5 RDS model review**

A review of the Realistic Disaster Scenario model is currently being carried out to ensure that RDSs are updated in line with developments in global risks, (e.g. terrorism), and to ensure that the application and modelling of RDSs is consistent across the franchise. The results of this process will be reflected in the 2004 RDS exercise in April 2004 and we expect to provide guidance on the approach we expect to take to syndicates in managing their expected catastrophe risk aggregations in August 2003.

## **9.6 Average ROC at Market and Franchisee Level**

The issue of setting underwriting profitability targets or target returns on capital is currently under review and it is expected that appropriate targets will be established as an integral part of the business plan review and approval process.

## **9.7 Consultation**

There will be consultation with members of the market on the above issues. Should you wish to make comments on any or all of the items listed above, please contact David Roe on 0207 327 6518.

## **10. Queries**

Any queries relating to downloading the software from the website should be directed to the MSU Helpdesk on 01634 392200.

Any queries regarding the functionality of the spreadsheet should be directed to Ash Shah on 0207 327 6858.

Any queries relating to the content of the returns should be sent to [businessplans@lloyds.com](mailto:businessplans@lloyds.com), or Lloyds-Businessplans via the GAL.

This bulletin is being sent to all active underwriters, managing agents, members' agents, accountants, Lloyd's advisers, market associations and corporate members.

Rolf Tolle  
**Franchise Performance Director**

**Business planning information submission timetable**

<b>Date</b>	<b>Requirements</b>	
	<b>Non-aligned syndicates</b>	<b>Aligned syndicates</b>
20 June 2003	Full "SBF" return	RBC Feed only
1 August 2003	Update "SBF"	Update RBC Feed
12 September 2003	Full AFBP	Update RBC Feed
15 October 2003		Full AFBP

The template will clearly identify which sections need to be completed, depending upon the status of the syndicate (aligned or non-aligned) and the intentions of the syndicate (e.g. pre-empt or de-empt).

**PIM Rates of Exchange**

The prescribed rates of exchange to be used for converting 2004 year of account premiums into £ sterling for the purposes of Premium Income Monitoring and the Business Planning process are as follows:-

US Dollar	1.56
Canadian Dollar	2.38
Euro	1.55
Australian Dollar	2.67
South African Rand	14.48
Japanese Yen	188.28
Swiss Francs	2.34

It has been the practice in the last few years to advise the market of rates of exchange to be used well in advance of the beginning of the relevant year of account. This is done in order to assist managing agents in planning future premium income levels.

It is recognised that the actual rates may vary from the above over the period of the 2004 year of account, but it is felt that the ability of the market to plan ahead is of primary importance.

Please address any queries to Karen Truston, Risk Management on 0207 327 5862.