

FROM: Head, Market Reporting
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SUBJECT: MARKET REPORTING 31 DECEMBER 2003:
KEY CHANGES TO THE SYNDICATE RETURNS
ATTACHMENTS: Appendix 1
ACTION POINTS: None
DEADLINE: None

Market Bulletin Y3111, dated 4 August 2003, advised you of the key deadlines in relation to the 2003 year end syndicate reporting exercise. The purpose of this bulletin is to advise you of the key changes to the syndicate returns compared with last year, and to offer to provide you with draft forms and validations.

The key changes to the syndicate return forms compared with last year are set out on Appendix 1. Please note that although the forms are in a 'near final' stage, they are still draft and as such are subject to change.

Should you wish to be provided with a copy of the draft forms and validations, please contact Janice Sinclair on Lloyd's extension 6440, or alternatively please e-mail her at janice.sinclair@lloyds.com. If you have any comments regarding the draft forms and validations, please provide them by e-mail to Paul Tucknott (paul.a.tucknott@lloyds.com) by no later than Friday 26 September.

If you have any enquiries about the content of this bulletin please contact Robert Smith on extension 5459 or Paul Appleton on extension 6433.

This bulletin has been sent to all managing agents and recognised accountants.

John Parry
Head, Market Reporting

Syndicate return 2003 – main highlights and changes

General

Status of forms and validations

You are reminded that the draft forms and validations referred to in this market bulletin, although ‘near final’, are **draft** and as such subject to change. Please provide any comments thereon by e-mail to Paul Tucknott at paul.a.tucknott@lloyds.com by no later than Friday 26 September. The final syndicate return forms and instructions will be issued by Friday 17 October.

Advice of changes to instructions

As noted above, the syndicate return forms and instructions will be issued by Friday 17 October. Every effort will be made to avoid the need to provide clarifications or updates after this date, but should these be needed:

- Any fundamental amendment or correction to the instructions will be issued either as a market bulletin or will be e-mailed directly to compliance officers, clearly stating that it is an amendment to the instructions;
- Responses to often-asked questions and queries will be issued as ‘Frequently Asked Questions’ (FAQs) via the Market Returns web-site; and
- Clarifications to the instructions (but not amendments or the correction of errors – see above) will be issued as part of the FAQs.

Syndicate return

SR1/SR2/SR10 – reconciliation to the distribution account

The instructions will emphasise the already extant requirement for the amounts reported in respect of the results for the 2001 and prior years of account to agree to the ‘RA’ and ‘RB’ amounts reported on the DD files to MSU.

SR2 – underwriting account

Improved instructions and an example shall be provided on how to deal with the retranslation of run-off reserves brought forward, at 2003 year end exchange rates.

SR10 – personal expenses

To facilitate validation with SSR3, an analysis of cumulative personal expenses (total only) but split between ‘individual’ and ‘corporate’ will be required for run-off years. This does not affect SR10 for 2001, 2002 and 2003 where this information is already provided.

SR11 – analysis of reinsurance bad debt

The amount reported on line 5 ‘provision for reinsurance bad debt’ on this form for all years of account in aggregate will have to, per the instructions, agree to the RD1 year end reinsurance debtor analysis form.

SR12 – balance sheet

Certain additional lines have been provided regarding the analysis of inter-syndicate and inter-year loans, cash at bank and reinsurance recoverables.

SR15 – reconciliation of global result with result to be apportioned for solvency

This form is now to be completed in £000s, to be consistent with the rest of the return.

Additional lines have been provided to deal with the continuous solvency transfer (for the 2002 year of account) and to explicitly report solvency disallowances relating to the concentration rules, reinsurer aged debt and other adjustments separately.

The instructions for the completion of lines 9 and 10 for run-off years will be simplified to require line 9 to show all cash calls due in calendar year 2003, and line 10 to show the net undistributed/(uncalled) amount on the run-off year brought forward at 1 January 2003.

SR16 – analysis of solvency reserves

The amount reported on line 9 ‘provision for reinsurer bad debt’ of this form for all years of account in aggregate will have to, per the instructions, agree to the RD1 year end reinsurance debtor analysis form.

SR17 – LATF business

The scope of this form is being expanded to incorporate the dollar spot forms previously issued separately, used in the LATF solvency test. The managing agent and auditor’s sign-offs in respect of the LATF solvency result, previously shown on the dollar spot forms, will now be included in the ‘main’ SR22 managing agent’s report and new SR23 (LATF) supplementary audit report.

SR20 – analysis of RITC paid/Run-off reserves retained

This form will be expanded to collect the breakdown of gross reserves and net reserves shown on lines 16 to 21 of SR16, by pure year of account, in converted sterling only.

SR22 – managing agent's report

The scope of this report will now include the sign-off regarding the LATF solvency result, previously collected separately in the dollar spot forms.

SR23 (LATF) – audit report (LATF)

This is a new form and will only be relevant to a syndicate reporting an LATF solvency result. This form will provide the sign-off regarding the LATF solvency result, previously collected separately in the dollar spot forms.

SR31 – Cash calls

This is a new form and will require the agent to provide an estimate of when outstanding and projected losses as at 31 December 2003 will be called – divided into the following time periods: up to and including 30 June 2004; second half of 2004; 2005; and 2006 and later.

Supplementary syndicate return

SSR3 – personal expenses

You are reminded that SSR3 must be completed on a cumulative basis for all years of account, including run-off years. The existing validations in this respect with SR10 are being expanded to cater for run-off years.

Annual accounting return

AA1 and AA2 – Technical account

These forms are to be completed using average rates, ie as for the interim return.

The December 2002 return was completed at year-end rates of exchange. We are reviewing the requirements to restate these figures within the comparatives at average rates of exchange.

The AA2 includes line 26a, movement on deferred acquisition costs, this is new compared to the last year-end return but as per the interim return.

The automatic derivation at lines 17 and 18 of column 16 in the run-off form has been removed.

AA3 – Balance sheet

The analysis of reinsurance debtors is to be completed in lines 26a to 26e of page 2 of AA3. This analysis is new compared to the year-end return: in the interim return the analysis was required on line 25.

AA4 – Segmental reporting

As for the interim return, there is no requirement for the geographical breakdown of the gross premium written. However, premiums earned and claims incurred must now be reported on a gross and net basis. At the 31 December 2002 year end, and in the 30 June 2003 interim return, only the gross figures were reported separately, with the reinsurance balance being reported as one figure.

AA5 – Reconciliations

As for the interim return, the reconciliations include a table for deferred acquisition costs.

AA9 – Analysis of result after all personal expenses

As for the interim return, the AA9 generates the results and combined ratios by year of account. Agents are then asked to provide an explanation of any material factors that have contributed to the reported result.

Cash flow

The 31 December 2003 annual accounting return does not include a form for cash flow information. Agents should note, however, that the 30 June 2004 interim and annual accounting returns will require this information. When Lloyd's adopts annual accounting for 2005, cash flow information will be required and the 2004 data will be needed to provide the comparative figures.

Solvency and reserving data (SRD)

There is no change to the SRD.

The SRD is a vital source of information for the Franchise and is a key input to the line of business and whole account benchmarking process. After receipt of the data at the last year end we have become concerned at the number of anomalies within the data set. These include:

- negative cumulative gross premium

- cumulative net premium greater than cumulative gross
- paid and/or incurred claims with zero corresponding premium
- total return claims being greater than original cumulative claims, gross and net
- cumulative net claims greater than cumulative gross

The number of these anomalies exceeded 37,000 and, without time-consuming cleansing of the data set, can lead to significant distortions.

More detailed guidelines to clarify precisely what we expect to see in the 2003 year end submission will be provided with the forms and instructions to be issued by 17 October.

FSA return

Management review

To assist in the review of the FSA return, a facility will be built into the software to enable the printing of a suite of key selected forms for management review.

Treaty business - FSA2 and FSA5

Treaty business will now be collected as either proportional or non-proportional treaty. The MAT accounting class will no longer be used. The analysis of MAT treaty business into proportional and non-proportional treaty is required in order to meet the draft Enhanced Capital Requirements issued by the FSA. Sub-division of each of the proportional and non-proportional treaty accounting classes into the underlying business categories will still be required.

FSA2 - technical account

Line 24, column 7 has been unblocked to enable reallocation between 'administrative expenses' and 'reinsurers' commissions and profit participations' (line 27) within column 7.

Line 30 'net technical provisions brought forward and eliminated' will be split into two lines:

- Line 30a 'net technical provisions brought forward' – this will report the solvency reserves for the year of account brought forward at 31.12.2002 at 31.12.2002 exchange rates
- Line 30b 'net technical provisions eliminated' – this will reverse out any RITC received by the year of account in the calendar year, at 31.12.2003 exchange rates.

FSA2/FSA6

A summary FSA2 class for direct and facultative business only will be generated by the software. This will facilitate reconciliation between the amounts reported on FSA2 and on FSA6.

Additional validations will be built in to reconcile from risk groups per FSA6 to the accounting classes per FSA2.

Discussions continue with the FSA regarding the level of disclosure required in respect of risk groups on FSA6. Agents may continue to report all risk groups if this is more convenient for their systems – any aggregation or simplification of the reporting requirements which may be set out in the instructions will be optional.

For the 2003 year of account, a validation will be built in to reconcile premiums (gross of brokerage and reinsurance ceded) between FSA2 class and FSA6.

FSA14A/B/C – major reinsurers and cedants

The list of major reinsurers specified for the completion of FSA14A and B will be reduced. A new, short list of major cedants shall be provided for the purpose of completing FSA14C.

It will not be necessary to reconcile the total of amounts reported on FSA14 with FSA12 – the requirement to report on ‘other’ reinsurers/cedants will be withdrawn.

Table of risk codes, accounting classes and risk groups

This will be updated for the new risk codes introduced in 2003, and the presentation will be simplified.