

**FROM:** Head, Market Risk and Reserving Unit  
**LOCATION:** 86/5  
**EXTENSION:** 5235  
**DATE:** 11 November 2003  
**REFERENCE:** Y3179  
**SUBJECT:** FINAL RBC AND FAL RATIOS  
**SUBJECT AREA(S):**  
**ATTACHMENTS:** None  
**ACTION POINTS:** **Managing Agents, Members' Agents, Lloyd's advisers and direct corporate members to note arrangements for the application of the final RBC ratios**  
**DEADLINE:** None

### **Introduction**

**Final capital ratios will be issued on Thursday 13 November in advance of the coming-into-line deadline of Friday 21 November.** The risk based capital ("RBC") timetable has been structured to ensure that the most current data feeds are used in the final release, but it is recognised that there may be late member participation changes which cannot be reflected. **Agents should use the 13 November version of the software to model the capital effects of changes in respect of late movements in member participations.**

Managing agents in control of their own capital (i.e., syndicates with aligned members only) can make changes to their syndicate business forecasts or member allocations but they must calculate their own member level capital requirements using the issued RBC software. **It is not correct to simply apply the same ratio to revised member allocations.** The MRRU has attempted to match aligned member participations with latest syndicate business plans, but it is the responsibility of every corporate member to ensure that the correct syndicate participations are used in calculating the RBC requirement. **Revised syndicate business forecasts and member allocations, which differ from those last submitted to Lloyd's and reflected in the 13 November release should be submitted electronically to Simon Falk**

**(<mailto:simon.falk@lloyds.com>) in the MRRU by 30 November 2003. The data should be submitted on the form attached to this bulletin, which can be requested in Excel format from Simon Falk using the foregoing e-mail address.** The RBC derived from final business plans will be reconciled to appendix 8 of the Corporate Members' Confirmation Form submitted to MSU.

### **Application**

Subject to the above, the FAL requirements issued on Thursday 13 November should be used for coming-into-line and these requirements supersede all indicative ratios issued earlier.

FAL percentage ratios have been rounded down to one decimal place. For example, where the FAL ratio is 55.49% the figure to be used for calculating the coming-into-line requirement would be 55.4%.

For this year the £10,000 banding provision will continue to apply, i.e. the initial RBC figures issued in June 2003 should be rounded up to the nearest £1,000 and should remain at that level provided the final RBC amount is within £10,000 (up or down) of the original requirement. It has been agreed to review these provisions for next year.

The FAL ratios also reflect the minimum capital requirement of 40% for the 2004 year of account. The minimum capital ratio for portfolios comprising at least 85% direct UK motor will continue to be 35%. Agents are referred to Market Bulletin Y3156 issued on 7 October 2003 which set out the membership and underwriting requirements for the coming-into-line exercise for the 2004 year of account. For further details on the way in which a member's CIL requirement, is calculated please also refer to Market Bulletin Y3124 issued on 27 August 2003.

### **Coming-into-Line - in summary**

- Active members participating on the 2003 year of account will be permitted to use a maximum credit of 3% of allocated premium limit ("APL") towards satisfying their RBC requirement for the 2004 coming-into-line exercise, subject to syndicate level restrictions set out in Bulletin Y3124.
- Care should be taken not to double count unused Continuous Solvency Transfers in respect of the 2002 year of account (See Bulletin Y3156).
- Unlimited liability members may utilise OPW, up to a maximum of 20%, towards meeting the minimum RBC requirement provided at **all** times the minimum level of funds at Lloyd's is 35% of APL.
- Liquidity cash call ("LCC") credits will again be permissible for all cash calls made on the 2001 and 2002 years of account in calendar year 2003, within the normal constraints.
- Individual members who converted (or group corporate members that have consolidated) may re-calculate the set-aside funds of the ceasing member(s) by reference to solvency data as at 31 December 2002, subject to the normal rules. The amount of interavailable funds will, however, be restricted to cover the RBC on pre conversion / consolidation years.
- Members will continue to be permitted to offset assets that have been disallowed for breaching the concentration limits against solvency deficiencies for the purposes of the coming-into-line calculation.

Any queries relating to the coming-into-line rules should be addressed to either Kevin Nethersell (ext. 6253) or Mike Steer (ext. 5709).

Member participations for the 13 November release are post Auction 3 and reflect all approved pre-emptions, de-emptions and reallocation of drop capacity as notified to the MSU by 27 October 2003.

### **Software**

RBC software will also be released on 13 November. Agents are referred to Market Bulletin Y3067 issued on 30 May 2003 for further information relating to the RBC software and process for the 2004 year of account. The software will permit agents to reflect any late-breaking portfolio changes including activity in the Deceased Names Auction (“DNA”) on the 9 and 10 December. Agents should note that any portfolio changes should be modelled in the RBC software and if, after the uptake of drop capacity, inadequate funds are available to support the final 2004 underwriting portfolio, underwriting must be scaled back as appropriate.

Agents should also note that subscription bids may only be entered in the DNA if the FAL necessary to support such additional underwriting is already in place. Agents will need to have calculated the members capital requirements prior to entering the DNA.

Any queries on this bulletin can be referred to Neil Wells (ext. 6034), Peter Tavner (ext. 5812) or Simon Falk (ext. 5683) in the Market Risk and Reserving Unit. Alternatively, agents with a Market Mail connection should access “Lloyds-RBC-Help”; the full e-mail address is <mailto:Lloyds-RBC-Help@lloyds.com>

This bulletin is being sent to all underwriting agents, corporate members, Lloyd’s advisers and to market associations, including the ALM, for information.

Henry Johnson  
Head  
Market Risk and Reserving Unit

