

Market Bulletin

LLOYD'S

One Lime Street London EC3M 7HA

FROM: Director, Franchise Performance
LOCATION: 86/GY5
EXTENSION: 6743
DATE: 23 July 2004
REFERENCE: Y3359
SUBJECT: FULL VERSION OF THE SYNDICATE BUSINESS FORECAST ("SBF")
ATTACHMENTS: SBF guidance notes (forms 8-15)
ACTION POINTS:
1 Note the new forms appended to the SBF
2 Note the deadline dates for the full version of the SBF during 2004 for the 2004 and 2005 years of account.
DEADLINE: 24 September 2004

The purpose of this bulletin is to provide you with further information about the additional forms in the SBF due to be released shortly. Please refer to Market Bulletin Y3317 of 20 May 2004 for further information on the initial SBF forms.

General

The new version of the SBF software will contain an additional seven forms. We will now refer to the SBF as either *short* (forms 1-7 & 15) or *full* (forms 1-15). The short return was previously referred to as Module A. Forms 8 to 14 were previously referred to as Module B.

A short return is required, for the first returns of the year, for the proposed year only. For instance, in June / July 2005 a short return will be required for the 2006 (i.e. proposed) year of account only. At all other times, for both current and proposed years, a full return is required. We will reiterate this guidance at the relevant times prior to the due dates for submission.

Full Version of the SBF

The full version of the SBF has been designed to support the business plan approval process. Our aim is to collect data that is ‘common’ to every syndicate. Data that is ‘unique’ to syndicates will be collected outside the general capture process, for example triangulated claims information. Please note that the collection of ‘common’ data via the SBF software does not represent the full business plan. The full business plan will be a combination of ‘common’ data, ‘unique’ data and ad-hoc requests.

Sign-off

Please note that the full version of the SBF must be signed off by 2 executive directors.

Further Information Requirement

The full SBF also requires agents to submit further information. These are detailed as follows:

	Current Year	Proposed Year
Strategy	One strategic statement required on longer term context	
Related Parties	Mandatory	Mandatory
Claims Management	Optional	Mandatory
Supplementary Information	Optional	Optional

The guidance notes appended to this bulletin will provide background information. The precise content of the information required will be advised in the software on 16 August.

The information gathered will be strictly for Lloyd's internal use only and will be treated in the strictest confidence.

Agents are required to indicate, in the comments section (form 15), those which they have submitted by use of tick-boxes. Please send the submissions to

➤ Lloyds-Businessplans@lloyds.com

These additional submissions are not required when completing a ‘short’ SBF.

With specific regard to the Claims management information, a template will be available for download on 16 August, along with the main SBF software, via the Market Returns website, for you to complete and return.

Guidance Notes

Please find attached the guidance notes for the additional forms. These have been provided *in draft form* so that agents can familiarise themselves with the information requirement well ahead of the return date. They are also being issued early in response to Market feedback. We welcome your input and would appreciate feedback on these guidance notes by the 11 August. Contact details can be found at the end of this bulletin. Please be aware that the notes are subject to revision following any feedback that we receive from the Market.

Timetable

The revised SBF software is currently being developed and will be delivered to the Market on Monday 16 August 2004. The deadline for the completion of the full version of the SBF (forms 1-15) for the current (2004) and proposed (2005) years of account is 24 September (midday).

There will be no further submissions after this date and this will be considered as the final submission for the proposed year business planning purposes.

Penalties for Late Submission

The business plan timetable congestion requires all parties to adhere to the deadlines. However, as we believe agents have sufficient notice to ensure that plans can be submitted on time, agents will incur a fixed penalty of £5,000 in the event of late submission of the SBF (please refer to the timetable section of this bulletin).

Methodology

As previously stated, all full versions of the SBF must be submitted through the Market Returns website. Each submission will be checked by the Franchise Performance Directorate ("FPD") and will be returned should any data discrepancies be found. The SBFs will be collated and pertinent data passed to the Market Risk and Reserving Unit ("MRRU") for processing through the Risk Based Capital ("RBC") model. Subsequently MRRU will provide agents with indicative RBC figures and associated software to enable agents to undertake RBC modelling. The approval process for proposed year SBFs will conclude on 1 November.

Agents must not make submissions through any other route or mechanism.

Class of Business Changes

Please note that any class of business ("COB") change must be approved by the FPD before being 'promoted' from the SBF to other applications (i.e. QMR and PIM). The 'COB Promote' function was issued in version 1.1.15 of the SBF software (30 June 2004).

Direct Revenue Return ("DRR") Backfill

As previously stated, part of the review undertaken by FPD is to ascertain whether agents have reclassified the COBs. If this is the case (and the SBF is approved) agents will be required to provide a 'DRR backfill'. The purpose of this requirement is to ensure that a consistent history of claims and premium information is held in order to benchmark syndicate performance and monitor actual performance against plan. This means that agents will have to resubmit the DRR back to Q1 2002 (or syndicate start date, whichever is the later) based on the reclassified COB list. The software will provide agents with the means to do this. Agents should note that the requirement to resubmit prior DRR returns will not inhibit or delay the submission of the SBF.

Demonstration to all Agents

A demonstration of the software will be held on Monday 16 August 2004, 11:30-12:30. If you would like to attend please advise Stuart Scott by close of business Friday 30 July:

- 020 7327 5940
- stuart.scott@lloyds.com

Places are limited to a maximum of 2 per Agency.

Current Software Version Numbers

For information, agents should currently be using the following versions of the Core Market Returns software:

Back-end database	1.6
QMR	1.4.7
PIM	1.2.7
SBF	1.1.15

Contact Details Held on the Market Returns Website

Please review your contact details as held on the Market Returns website and update where necessary.

If you have any queries about the content of this bulletin please contact Alessandra Walker:

- 020 7327 5643
- alessandra.walker@lloyds.com

Alternatively, please use Lloyds-Businessplans@lloyds.com.

This bulletin has been sent to all Managing Agents and to Members' Agents and Market Associations for information.

Rolf Tolle
Director, Franchise Performance

Syndicate Business Forecast Software

Guidance Notes (forms 8 - 15)

Form 8 - Underwriting Account

Form 9 - Investment

Form 10 - Cash flow

Form 11 - Geographical Split

Form 12 - Rating Forecast

Form 13 - Underwriting Controls

Form 14 – Realistic Disaster Scenarios

Form 15 - Syndicate Comments

FORM 8 - UNDERWRITING ACCOUNT

General Information

This form must be completed for both current and proposed years of account, unless otherwise indicated.

Please provide any additional comments in form 15.

Definitions

A1- Capacity

Target level of capacity anticipated for the year ahead. This information is pre-populated from form 5 (Capacity Information).

The following cells (A to J) are pre-populated from form 3 (Underwriting Performance Forecasts)

A - Gross Gross Premiums

Best estimate of ultimate premiums receivable on an inception date allocation basis, net of taxes and duties levied with the premium

B - Commission

All deductions payable to the insured and reinsured (e.g. profit commission, no claims bonus, prompt payment discount, renewal incentive bonus, continuity credit)

C - Commission paid to service companies

Brokerage, commission and other deductions (e.g. profit commission, no claims bonus, prompt payment discount, renewal incentive bonus, continuity credit) payable to service companies

D - Brokerage

Brokerage & commissions payable to insurance & reinsurance brokers excl. business arrangement fees

E - Business Arrangement Fees

fees payable to brokers in addition to commissions and brokerage in respect of, for example, volume, profitability, management, administration, marketing or processing functions (this is not an exhaustive list). Business Arrangement Fees are also known as PSA's, Market Service Agreements or Contingent Commissions.

F - Total gross premiums

Gross gross premium, after deduction of commissions, brokerage and business arrangement fees, before premiums ceded to QQS and before RI premiums ceded (all projected to Q12)

G – Premium Ceded to QQS
Total gross premiums ceded to QQS

H - Syndicate Gross Premiums
Total gross premium after cessions to QQS, but before cessions / payments to other RI
(projected to Q12)

I – RI Premium Ceded
Syndicate gross premiums ceded to reinsurers excluding QQS cessions.

J - Syndicate net premiums
Syndicate gross premium less RI premium ceded after cessions / payments to QQS and other
RI (projected to Q12)

Cells K to M require data to be entered.

K - Gross Claims
Gross claims are a best estimate of ultimate claims paid, on a policy inception date allocation
basis, before any reinsurance or QQS recoveries.
i.e. Total gross premiums x Gross ULR summed over all classes of business

L - Claims recoverable from QQS
i.e. Premium ceded to QQS x Gross ULR summed over all classes of business ceded to QQS

M - Claims Recoverable from RI
i.e. the difference between the weighted average gross ULR & the net ULR x the Syndicate
Gross Premium.

Cell N is a calculation

N – Syndicate Net Claims
i.e. Gross claims less Claims recoverable from QQS less Claims recoverable from RI

Cells O and P require data to be entered

O – Initial Forecast Pure Underwriting Result
The first forecast result as at Q6. This does not include expenses.

P – Original Forecast Pure Year Underwriting Result
As per the approved business plan. This is only required for the current year.

The following cells (Q to X) are calculations, displayed for your information

Q – Capacity Utilisation - Total gross premiums / Capacity.

R – Gross ULR – Gross claims / total gross premium*100.

S- Net ULR - Net claims / syndicate net premium*100.

T - Gross Premium Growth Rate (%) -Total gross premium for 2005 year / Total gross premium for 2004.

U – Net Premium Growth Rate (%) – Syndicate net premium for 2005 year / Syndicate net premium for 2004.

V – Reinsurance spend (%) – RI premium ceded / Syndicate gross premium.

W- Acquisition Cost Ratio (%) – Commissions + commissions paid to service companies + brokerage + business arrangement fees / Gross gross premium.

X- Pure year Underwriting Return on Capacity (%) – Initial forecast pure year underwriting result / capacity.

FORM 9 - INVESTMENT

General Information

This form must be completed for both current and proposed years of account.

Please provide any additional comments in form 15.

Syndicates should submit on this form the rate of return details, by currency, for each investment manager used.

Rates of return should be rounded to two decimal places.

Syndicates should enter their best estimate of the return range that will have been achieved at year end.

The current year return will display an additional section where agents are required to enter the actual return rates (by investment manager and currency) for the previous year of account.

For the proposed year, investment returns are required for the 12 month point of the 36 month cycle.

Business Validation Rules

BVR 1001 – Warning - The entries for the “Return Range” must be greater than 0%

BVR 1002 – Warning – The entries for the “Return Range” are expected to be less than 15%

BVR 1015 – Hard – The “To” entry must be greater than or equal to the “From” entry, for the “Return Range”.

FORM 10 – CASHFLOW SUMMARY

General Information

This form is required for the proposed year of account only. It is not required for the current year of account.

Please provide any additional comments in form 15.

Please complete this form in converted Sterling, using rates of exchange which you consider to be appropriate.

Opening free funds must be the same as the closing free funds from the previous period.

Definition

'Free funds' are defined as:

- Sterling Premium Trust Fund (including Additional Securities Limited, Lloyd's Japan Incorporated, Kentucky sub account, Royal Trust Canadian Premiums Trust Fund / non regulated).
- Lloyd's Dollar Trust Fund.

Business Validation Rule

BVR 1003 – Warning – At least one cell must have a non zero entry. If no data has been entered on this form, a reason must be given in the Syndicate Comments (Form 15).

FORM 11 - GEOGRAPHICAL SPLIT OF BUSINESS

General Information

This form must be completed for both current and proposed years of account.

Please provide any additional comments in form 15.

Premium should be split by domicile of risk.

Where business is multinational /worldwide and cannot be split by risk location, it should be included in the territory accounting for the largest part of the premium.

If you feel it is not appropriate to split premium according to where the business is domiciled or the territory which accounts for the largest part of the premium, e.g. space insurance, please split the premium as you feel appropriate and use the Comments section (form 15) to explain the methodology used.

Definition

Total gross premium

Gross gross premium, after deduction of commissions, brokerage and business arrangement fees, before premium ceded to QQS and before RI premium ceded (all projected to Q12). The summation of total gross premium by region should equate to F in the Underwriting Account (form 8).

Business Validation Rules

BVR 1004 – Hard – “Total Gross Premium” must equal the Syndicate Business Forecasts “Total Gross Premium” on Form 3.

BVR 1005 – Hard – All entries on this form must be greater than or equal to zero.

BVR 1006 – Hard – Individual “Capacity” percentages must be less than or equal to 100%

BVR 1007 – Hard – The sum of all “Capacity” percentages must be less than or equal to 100%

FORM 12 - UNDERWRITING RATING INDEX

General Information

This form must be completed for both current and proposed years of account.

Please provide any additional comments in form 15.

The purpose of this section is to update your view on your current year class of business rating indices and to provide projected class of business rating indices for the proposed year. Please provide these by using 2000 (or the first underwriting year of the syndicate if 2001 or later) as the base year =100. Reasonable allowance should be made for increases / decreases in deductibles, strengthening / weakening in terms and conditions and claims inflation.

This form is pre-populated with classes of business as specified in form 1. The classes displayed will be those that have been selected irrespective of whether they are approved or unapproved.

Business Validation Rule

BVR 1008 – Hard – The “Rating Index” entry must be greater than zero.

FORM 13 - UNDERWRITING CONTROLS

General Information

This form must be completed for both current and proposed years of account.

Please provide any additional comments in form 15, including an explanation of the difference between absolute maximum and normal maximum gross line sizes where applicable.

Please provide details of absolute maximum, normal maximum gross and net retained lines by class of business.

The drop-down is populated with classes of business as specified in form 1. The classes displayed will be those that have been selected irrespective of whether they are approved or unapproved.

If your underwriting controls are imposed on a sub-class basis, please enter information for your largest line within the class of business and explain your methodology on form 15.

C – Limit Type

This is a free text field for you to indicate the limit type. Please leave blank if your line size is “unlimited”.

Examples of limit type include:

- Any one aircraft
- Any one claim
- Any one event
- Any one known accumulation
- Any one life
- Any one risk
- Any one risk (PML basis)
- Any one risk (amount subject basis)
- Any one launch
- Any one structure
- Any one vessel
- Each and every loss
- Each and every risk

D – Currency

Using the drop down menu, please select the currency.

K - Class underwriter

Please insert the name of the class of business underwriter or where there are more than one, the most senior.

Unlimited line size tick box

Please tick if unlimited. Otherwise leave blank. If unlimited line size is ticked you do not need to enter any data, for that record, in columns E (absolute maximum gross line), G (normal maximum gross line) and I (net retained line).

E - Absolute Maximum Gross Line

Please insert your absolute maximum gross line in 000's. Where the line limits differ by currency, please provide details of the largest line only.

F - % of Capacity

This field is automatically calculated. It calculates the percentage of capacity that your absolute maximum gross line represents.

G- Normal Maximum Gross Line

Please insert your normal maximum gross line in 000's. Where the line limits differ by currency, please provide details of the largest line only.

H - % of Capacity

This field is automatically calculated. It calculates the percentage of capacity that your normal maximum gross line represents.

I - Net Retained Line

Please insert your net retained line in 000's. Where the line limits differ by currency, please provide details of the largest net retained line only. If the net retained line is zero, then please enter a zero.

J - % of Absolute Maximum Gross

This field is automatically calculated. It calculates the percentage of absolute maximum gross that your net retained line represents.

Business Validation Rules

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BVR 1009 – Hard – You must provide at least one entry for each Class of Business.

BVR 1010 – Hard – All entries to this form must be greater than or equal to zero.

BVR 1016 – Hard – A valid “Limit Type/Class Underwriter” must be entered as “[Enter Value]” is not permitted.

FORM 14 – REALISTIC DISASTER SCENARIOS

General Information

This form must be completed for both current and proposed years of account.

Please provide any additional comments in form 15.

The purpose of the RDS section is for syndicates to estimate the losses they would incur from the list of hypothetical disaster scenarios.

Syndicates should use an approach that is consistent with the guidance and instructions issued for the April 2004 RDS exercise.

The loss estimates provide a syndicate with the ability to forecast losses for both the proposed year (as at 1st April of the proposed year) and the current year (as at the deadline date for the final SBF submission).

Syndicates should complete the gross loss, net loss and final net loss figures only for both the compulsory scenarios (top section) and the de-minimis scenarios respectively.

Franchise Performance expects that RDS exposures are managed on a continuous i.e. daily basis, subject to the CSG Guidelines and your RDS data submitted using this software should reflect and be consistent with any changes to your business plan.

Definitions

Gross loss is the expected value of the loss arising from the RDS event, after the application of syndicate participations and policy or treaty limitations on cover, such as coinsurance, deductibles and limits.

Net Loss is the expected value of the loss from the RDS event after reinsurance recoveries, but before reinstatement premiums have been paid and received.

Final net loss is the expected value of the loss from the RDS event after reinsurance recoveries have been received and reinstatement premiums have been paid and received. Gross loss, net loss and final net loss figures will be automatically calculated as a percentage against capacity for those scenarios completed

FORM 15 - SYNDICATE COMMENTS

General Information

Please use this form to provide additional comments to support the data provided in forms 1 – 14. Please insert as many records as required. Use more than one entry per form if required.

Additional Submissions

Agents are required to provide additional submissions for:

A Strategy (there should be just one strategic statement for the business that provides a longer term context)

B Claims (optional for the current year but mandatory for the proposed year)

C Related Parties (mandatory for both current and proposed years)

D Supplementary Information (optional for both current and proposed years)

These additional submissions are not required when completing a ‘short’ SBF.

Agents are required to indicate, using the tick boxes provided those which they have submitted. Submissions should be emailed to Lloyds-Businessplans@lloyds.com.

Guidance with regard to the additional submissions is provided below.

A Strategy

Strategic Direction:

Please describe your overall strategic aims and objectives. Ideally your narrative should include the following type of information:

- a) What are your target customer segments?
(How does this differ from your current business mix?)
- b) What is your proposition/source of competitive advantage?
- c) i. How will your success be measured? (What are your medium/long term targets?)
(e.g. profit through the cycle, market share, security ratings, business mix, and size)

ii. How far are you towards achieving these targets? When will these be achieved?

Business Environment:

What external factors have you considered in compiling your plan and how sensitive is achieving your plan to these factors? Ideally your narrative should include the following type of information:

- a) A description of your current and likely future competitive environments?
e.g.
 - who are your main competitors and what are their relative strengths/weaknesses in comparison to your own?
 - what are the main opportunities and threats in your markets?
- b) How do you expect the market cycle to develop and how do you intend to manage your business through it?
- c) Your approach and consideration of potential regulatory changes.
- d) Your approach and consideration of potential macro economic and social changes.

Strategic Implementation:

How will you implement your strategy? Ideally your narrative should include the following type of information:

- a) What strategic moves will be made (including changes to business structure, major projects and initiatives) to achieve your aims?
- b) What additional core capabilities will need to be developed to achieve your aims?
- c) What are the major risks to your success and what alternative options or contingency plans do you have?

B Claims

- Following the recent review of claims management within the Lloyd's market the Franchise Board approved the introduction of claims management principles for inward claims, backed up by targeted minimum standards where appropriate. Minimum standards will be developed around the 8 claims management principles framework.
- The approach for the forthcoming year is to identify Managing Agents' current practices, using the forthcoming questionnaire, which will be available for download on the Market Returns website, and then establish an initial set of standards for the forthcoming year with market involvement.
- The process to date has taken account of best practices and has involved many Lloyd's claims practitioners; the intention is to continue to work in partnership so that we set expectations at the right level for the market overall.
- It is intended that claims management should gain a higher profile in the market, recognising its important contribution to future results.

Summary of content:

The questionnaire will contain an introductory explanation, together with 8 templates for completion. Each template relates to one of the claims management principles, for example 'Case reserving should be conducted in a consistent, timely and accurate manner'. Managing Agents will be requested to complete a series of questions, some of which have stated options and others requesting information. This information will be separated from the core business plan return and retained confidentially between Franchisor and Managing Agent. The information will be used to inform our general understanding of claims management practices in the market and to set standards at the right levels.

C Related Parties Transactions

Managing Agents are required to include in their syndicate business plans all related party insurance transactions that it intends to enter into for the current and proposed years of account. Related party insurance transaction is one where the syndicate will either –

- a) insure, reinsure or place reinsurance with a related party; or
- b) insure, reinsure or place reinsurance with any person other than on an arms length basis on ordinary commercial terms.

A related party for these purposes means –

- a) any company within the same group as the managing agent;
- b) any company within the same group as a corporate member of the syndicate which has a syndicate premium income of more than 10% of the syndicate allocated capacity;
- c) any company which has two or more directors in common with the managing agent.

Group has the meaning set out in section 421 of the Financial Services and Markets Act 2000.

Managing Agents may only underwrite on behalf of a syndicate in accordance with its agreed business plan. Accordingly, a Managing Agent which proposes to enter into a related party insurance transaction which is not referred to in the agreed business plan must apply to the Franchise Performance Directorate to add the transaction in question.

D Supplementary Information

This box needs to be ticked where supplementary information is being provided to support your business plan.

An example of this would be where you write or intend to write After-the-Event Legal Expenses Insurance or Viatical Insurance. These two classes of business have been identified as potentially posing a reputational risk to the Lloyd's Franchise and for which special authorisation is required from FPD in order to write this business.

For further guidance on these two classes you need to refer to Lloyd's letter to Managing Agents dated 16 April 2004.