

FROM: Head of Market Reporting EXTN: 5129
DATE: 22 December 2004 REF: Y3469
SUBJECT: **CORE MARKET RETURNS 2005/2006**
SUBJECT AREA(S):
ATTACHMENTS: Yes

ACTION POINTS: **Managing agents and recognised accountants to review content of bulletin, and provide feedback on draft forms and timetable**

DEADLINE(S): **Responses by Monday 17 January 2005**

It is proposed to change the arrangements in respect of syndicate reporting to the Franchisor in 2005, in response to the demand from managing agents for reporting requirements to be streamlined, and also to meet the new requirements created as a result of Lloyd's adoption of annual accounting with effect from 1 January 2005.

The proposals include the introduction of a single integrated format in respect of the syndicate return (SR), supplementary syndicate return (SSR), annual accounting return (AAR), solvency and reserving data (SRD), FSA return, quarterly monitoring return (QMR), premium income monitoring (PIM), syndicate business forecast (SBF) and run-off financial planning packs (FPP). In addition, new collection software will be introduced from June 2005. Other returns not listed above (and in particular the syndicate ICAs) are not currently proposed for inclusion in this project.

Return rationalisation

In response to concerns raised previously by the market, we are proposing to streamline the reporting requirements including the elimination of duplication of data collection. In particular:

- The SR, SSR and AAR will be combined into a single annual return (AR)
- Parts of the AR and FSA return will be populated automatically by the SRD, which is being enhanced and will become an audited return
- The interim AAR will be combined with the Q2 QMR; the forms containing the interim annual accounting results will be subject to a review by an auditor similar in scope to that of a company listed on the London Stock Exchange
- The Q4 QMR will be largely completed automatically from the AR.

Draft forms and a brief commentary on each return are available in respect of each of the AR, SRD, FSA return, QMR, PIM, SBF and FPP. Please contact Janice Sinclair (janice.sinclair@lloyds.com) should you wish to receive the draft syndicate reporting packs. If you have any comments on the proposed new arrangements or draft reporting packs, please forward them by e-mail to Paul Tucknott (paul.a.tucknott@lloyds.com). Please provide responses by no later than Monday 17 January 2005.

Principles of return preparation

There are a number of common principles and concepts underlying how the returns will be prepared. These are set out in Annex 1.

IT arrangements

A new web-based reporting system will be developed during Spring 2005 following the finalisation of the data collection requirements. This will ultimately supercede the current systems used to prepare the various returns affected by this project. As noted below, there will be transitional arrangements involving the usage of existing technologies until the new arrangements are fully bedded in.

The new software will replace the various existing systems that we use to collect the various returns and as a result will rationalise the IT requirements. The software will be entirely web-based and will provide improvements in flexibility, functionality, ease of development, consistency and security compared with the existing arrangements. Full details of the software implementation will be provided to users during Q1 2005.

In the past, the market has provided valuable assistance in the testing of software, and if you consider that you would be able to assist in the testing of the new systems, please contact Paul Tucknott at paul.a.tucknott@lloyds.com. Such assistance would be gratefully received.

Timetable and transition arrangements

It is intended that the new reporting arrangements will be implemented with effect from the March 2005 FPP submission, with the first usage of the new software for the June 2005 SBF submission. Attached at Annex 2 is the draft timetable in respect of syndicate reporting requirements affected by this project up to and including the 2005 year end.

As a backup, we may also require submission of the 30 June 2005 interim AA return using the existing Foxpro system, alongside submission on the new basis. Once we are satisfied that the new IT arrangements are fully bedded in, we shall require submission of returns on the new basis only; we hope to reach this position for the 30 June 2005 QMR/interim AA returns and certainly for the 31 December 2005 returns.

This bulletin is being sent to the compliance officers of all underwriting agents, and also to recognised accountants and market associations.

John Parry

Key principles

Subject area	Proposal
Accident year reporting	<p>Movements reported at the end of 2005 will be in respect of calendar year 2005.</p> <p>The following split of the total calendar year movement is required for UK GAAP disclosures at whole account level only:</p> <ul style="list-style-type: none"> • movements attributable to accident year 2005 • movements on prior year reserves. <p>It will not be necessary to report an accident year split against reporting year of account or pure year of account.</p>
Underwriting year reporting	<p>All returns will require a split of the total calendar year movement by:</p> <ul style="list-style-type: none"> • movements attributable to reporting year of account 2005, 2004, 2003 and (possibly multiple) run-off year(s) of account. Note that reporting year of account was previously known as underwriting year of account. • A further split of underwriting movements on prior years into pure year of account
Entry level of data	<p>In order to simplify the data model and warehouse, it is proposed that all items be collected by pure year of account within reporting/run-off YOA. The submission software will have the ability to play back the data for prior years, aggregated into reporting/run-off YOA.</p> <p>Note that the reporting/run-off YOA cannot be derived from the pure YOA alone because business from a given pure year could be present in more than one reporting/run-off YOA within a syndicate.</p> <p>The lowest level of granularity within a pure YOA will be risk code by type of acceptance (placement method) by currency.</p>
Premium income	<p>All returns will be based on gross written premium, with analysis of written and earned premiums gross and reinsurers' share. There will be no requirement to submit signed premium data.</p>

Subject area	Proposal
Currencies	<p>The GAAP requirement is for all amounts in converted sterling. However, because exchange rate fluctuations can mask trends in underwriting results and USD business has a significantly different “tail” from other business, the reporting requirement will be the following:</p> <p><u>Principles</u></p> <ol style="list-style-type: none"> 1. All financial amounts are required in converted sterling. 2. Relevant financial amounts will also be required in USD for that part of the business accounted for in USD and in GBP for the remaining part of the business, irrespective of the accounting or settlement currency. 3. Cash flows will be required in converted sterling only, with the exception of liquidity reporting within the unaudited AR, where currency analysis is required as appropriate. 4. Where figures are audited, the audit will apply to GBP, USD and total in converted sterling. 5. For P&L actuals, all conversions are to be made using average rates of exchange as defined under UK GAAP. The Franchisor will not prescribe the exchange rates to be used. 6. For balance sheet actuals, all conversions are to be made using the closing rate as defined under UK GAAP. Franchisees will be required to supply the exchange rate actually used for USD. The Franchisor will not prescribe the exchange rates to be used. 7. The Franchisor will issue suggested rates of exchange as a guide for P&L and balance sheet items each quarter, but these will not be mandatory except for the SBF prospective year. Separate reporting of USD will enable the Franchisor to use a consistent rate of exchange for performance management. <p><u>SBF</u></p> <ol style="list-style-type: none"> 8. The exchange rate for settlement currencies will be mandated for the prospective year only. Franchisees will be expected to use a rate consistent with UK GAAP for the reforecast of the current year. <p><u>Class of business performance forecasts and actuals (SBF and QMR)</u></p> <ol style="list-style-type: none"> 9. Risk code/currency mappings will continue to be required in GBP and USD and to sum to 100% per syndicate class of business. Here, GBP represents that subset of the business not accounted for in USD.

Subject area	Proposal
	<p>10. The main performance forecast in the SBF and performance analysis in the QMR by class of business will be required in converted sterling only and not USD. This is because the risk code/currency mappings will be applied to these figures. Any significant change in the currency make-up of a syndicate class of business, caused either by a departure from plan or a major currency movement, should, therefore, be reflected in the risk code/currency mapping.</p> <p>11. All other relevant financial amounts will be required in converted sterling and USD. The figures will not be calculated from the forecast by class of business, but there will be a validation cross-check. If the figures are materially different (for example, because the USD exchange rate has changed significantly since the last submission) then the franchisee will be expected to update the risk code/currency mappings to ensure consistency. This capability will be available in the SBF and QMR by year of account.</p> <p><u>PIM</u></p> <p>12. Currency conversions are expected to be made at average rates as per UK GAAP, but franchisees must have the ability to provide the figures using the rates of exchange used for stamp if requested. The Franchisor may request this breakdown in particular cases where the premium written appears close to capacity.</p> <p><u>Other notes</u></p> <p>13. The requirement for Euro and Canadian dollar in the SBF for RBC purposes will cease, as will the requirement for Canadian Dollar in the SRD.</p> <p>14. The above does not affect the requirement to report an analysis of the balance sheet by trust fund in underlying currency in the FSA return.</p>
Units and tolerance	Financial amounts can be supplied as floating point numbers or round thousands according to preference. Appropriate tolerances will be applied to reconciliation of totals.
Syndicate submission level and mappings	The Franchisor will maintain a schedule for each agent of which returns are expected to be submitted under which syndicate numbers for which reporting years. This will maintain consistency between forecast/actual and monthly/quarterly/annual submissions so that the Franchisor can compare figures across returns. The schedule will be issued at specified points in the business cycle and the franchisee will be expected to confirm the expectations or notify any changes by a specified date prior to each return falling due.

Subject area	Proposal
Segmented analysis of underwriting	<p>SRD will be altered so that:</p> <ol style="list-style-type: none"> 1. Split is by reporting YOA, pure YOA, risk code, type of acceptance and currency 2. Time of receipt is comparable to AR (9 weeks after year end) 3. Return is audited 4. Guidance will be given on allocation of whole account reinsurance
Signing convention	<p>For revenue items, credits shall be positive and debits negative.</p> <p>For balance sheet items, credits shall be negative and debits positive.</p>
Interpretation	<p>Managing agents are responsible for appropriate application of UK GAAP principles. However, it is important to avoid ambiguity, so specific guidance will be required in some areas to ensure good quality reporting and to avoid inconsistent interpretation.</p>
Gross Premium Written	<p>Gross Premium Written will be split between continuing & discontinued lines of business, as per the UK GAAP definition. Applies to annual return and QMR, only for quarter 2.</p>
QQS disclosure	<p>QQS will be reported in the PIM return to allow the comparison of premium written and syndicate capacity on a consistent basis.</p>
Written premium under binding authority & lineslip.	<p>Under GAAP, premium income under binding authorities and lineslips is recognised as written when the underlying risk incepts, not when the authority is granted, which is the current basis of income monitoring.</p> <p>Therefore, underwriting accounts require the income to be reported as the risks incept, but the PIM will contain the additional amount of premium authorised under binders & lineslips to enable monitoring of premium income against capacity.</p> <p>GWP (on GAAP basis) + future premiums not yet incepted under binders & lineslips - brokerage & commissions</p>

Subject area	Proposal
	<p>- QQS = premium for comparison with syndicate capacity</p> <p>Note that brokerage & commissions is used, rather than the full acquisition costs from the GAAP technical account. i.e., it excludes other acquisition costs allocated from internal admin costs.</p>
RITC	<p>For RITC within a syndicate, no entries are required in the GAAP technical account.</p> <p>For third party RITC, the movements will be accommodated within gross written premium and change in claims reserve, i.e., treated as a portfolio transfer between companies.</p>
Actuarial sign-off	Actuarial opinion on technical reserves to tie back to closing provisions in balance sheet, not P&L changes in provision

Draft timetable – 2005 reporting season (excludes overseas reporting)

Activity	2005 deadline	2004 deadline	Comment
Agents to provide comments on draft new syndicate reporting forms and instructions	Mon 17 Jan 2005	-	
Lloyd's to finalise reporting requirements	Mon 7 Feb 2005	Fri 8 Oct 2004 (for year end)	
Lloyd's to develop system for 30.06.2005 combined QMR/interim AA return	Spring 2005	-	
Agents to submit FPP for run-off syndicates	Thur 31 Mar 2005		With revised content but using existing spreadsheet-based submission process
Agents to submit SBF submission 1	Thur 23 Jun 2005		With revised content and using new collection software
Agents to submit PIM (June)	Mon 11 Jul 2005	-	First PIM with revised content and using new collection software
Agents to submit SBF submission 2	Thur 21 Jul 2005		
Agents to submit 30.06.2005 combined QMR/interim AA return using new software. Auditors' review required in respect of the forms containing the interim results	Thur 18 Aug 2005	Thur 26 Aug 2004	Audit sign-off required for publishing interim results. Requests for a two week extension for the submission of the auditors' report will be considered on a case-by-case basis.
Agents to submit SBF submission 3	Fri 23 Sep 2005	Fri 24 Sep 2004	
Agents to submit 30.09.2005 QMR	Thur 24 Nov 2005	Thur 25 Nov	
Agents to submit 31.12.2005 AR	Thur 2 Mar 2006	Thur 24 Feb/ Thur 3 Mar 2005	Succeeds SR, SSR and AR. Audited
Agents to submit 31.12.2005 SRD	Thur 2 Mar 2006	Thur 14 Apr 2005	Used to pre populate AR and FSA return for class of business analysis. Audited for 2005 year end
Agents to submit 31.12.2005 QMR	Thur 9 Mar 2006	Thur 24 Mar 2005	Will be largely pre populated from AR. Unaudited
Agents to submit 31.12.2005 syndicate report and accounts	Thur 23 Mar 2006	Thur 24 Mar 2005	Audited
Agents to submit 31.12.2005 FSA return	Thur 23 Mar 2006	Thur 21 Apr 2005	Partially pre populated from SRD. Audited
Agents to submit 31.03.2006 QMR	Thur 25 May 2006	Thur 26 May 2005	

