

MARKET BULLETIN

From	Head, Market Risk and Reserving
Date	10 November 2005
Reference	Y3670
Subject	FINAL ECA AND FAL RATIOS
Subject areas	
Attachments	
Action points	Managing Agents, Members' Agents, Lloyd's advisers and direct corporate members to note arrangements for the application of the final ECA ratios
Deadlines	None

Introduction

Lloyd's would like to acknowledge and thank managing agents for their cooperation and flexibility throughout the ICA review process, especially given the exceptional circumstance of this year.

Final capital ratios were issued on Wednesday 9 November in advance of the coming-into-line deadline of Tuesday 29 November. The Economic Capital Assessment ("ECA") 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, including trades in auction 4, capacity discarded and 'drop' taken up. Participation data reflects changes due to approved syndicate pre-emptions and de-emptions, and trades in the first 3 auctions. Agents and Direct Corporate Members should check participation files and use the 9th November version of the software to model the capital effects of changes in respect of late movements in member participations.

In the exceptional circumstances that a wholly aligned syndicate has been permitted to submit a late business plan change, this will not be reflected in this software release and it is the responsibility of the managing agent to agree a final capital requirement in conjunction with their ICA team leader and the MRRU, having regard to the syndicate ICA and capital corridor provisions.

Application

Subject to the above, the FAL requirements issued on 9 November or derived from the software issued on the same date should be used for coming-into-line and these requirements supersede all indicative ratios / software releases issued earlier. As in previous years, the 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%. The FAL ratios also reflect the minimum capital requirement of 40% for the 2005 year of account, with the exception that the minimum capital ratio for portfolios comprising at least 85% direct UK motor will continue to be 35%. Agents are referred to Market Bulletin Y3612 issued on 18 August 2005 which sets out the membership and underwriting requirements for the 2006 coming-into-line exercise and also Market Bulletin Y3634 issued on 26 September 2005, which provides guidance on the recognition of syndicate open year profits.

Coming-into-Line (CIL) - main points

- OPW is not an available asset for the 2006 CIL exercise.
- Overall 2004 year of account surplus is not available to offset against prior year deficits within the CIL exercise for 2006 only.
- Member's margin must be covered as minimum requirement in CIL.
- Bank guarantees and letters of credit subject to notice of cancellation are not permitted to offset against solvency deficiencies

Bi-annual Coming-Into-Line

As in 2005, members will be required to come into line in May/June 2006 based on their 31 December 2005 year end solvency position and their revised Risk Based Capital position taking into account the most up to date member and syndicate data. Further details on the operation of the mid-year coming-into-line in 2006 will be issued in due course.

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

Software

The ECA software was released on 9 November. Agents are referred to Market Bulletins Y3565 issued on 20 May 2005 and Y3616 on 24 August 2005 for further information relating to the ECA software and process for the 2006 year of account. The software will permit agents to reflect any late breaking portfolio changes including activity in Auction 4 on the 17 and 18 November. Agents should note that any portfolio changes should be modelled in the ECA software and if there are insufficient funds available for the aligned member to take up dropped capacity then underwriting must be scaled back as appropriate.

Agents will need to have calculated the member's capital requirements prior to entering Auction 4 and should also note that subscription bids may only be entered if the FAL necessary to support such additional underwriting has been put in place prior to commencement of this final auction.

Any queries on this bulletin can be referred to Neil Wells (ext. 6034) or Kevin Barnes (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, direct corporate members and to market associations, including the ALM, for information.

Henry Johnson
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