

MARKET BULLETIN

From	Head Market Finance (extn 5129)
Date	21 December 2006
Reference	Y3930
Subject	2006 annual returns: changes to FSA reporting requirements
Subject areas	
Attachments	
Action points	Note content of bulletin
Deadlines	Annual return: Thursday 1 March 2007 Solvency and reserving data: deadline changed to Thursday 19 April 2007 FSA return: Thursday 26 April 2007

Executive Summary

In accordance with our commitment to reducing the compliance and reporting burden that managing agents are subject to, we have been in discussion with the FSA concerning the scope and format of the Lloyd's annual return to the FSA and syndicate level FSA returns.

I am pleased to advise you that these discussions have been successful, and the FSA have agreed a 12 month waiver of several rules relating to the reporting requirements in respect of the aggregate Lloyd's Return, which is Lloyd's regulatory filing with the FSA, for the 2006 year end.

The detailed changes are listed in the following section. However, the main impact to managing agents will be:

- i) A significantly reduced syndicate level FSA return from around 300 pages to between 10 to 20 pages; and,
- ii) The deadline for the solvency and reserving data submission has been brought forward by one week as this return will now be used to source elements of the Lloyd's Return.

We anticipate that these changes will improve the efficiency of the year end reporting process and reduce the burden on managing agents for the 2006 year end.

We will continue to work with the FSA to look at other areas to improve efficiencies and reduce the reporting burden, which will be communicated at the appropriate time.

Changes to FSA reporting requirements

The FSA have agreed a 12 month waiver of certain rules relating to the reporting requirements in respect of the aggregate Lloyd's Return for the 2006 year end. Specifically:

- i) the analysis of syndicate level PTF assets by trust fund will no longer be required and;
- ii) the analysis of the underwriting account and technical provisions by category of business will be completed from the solvency and reserving data (SRD). Separate completion of FSA class of business forms by syndicate will no longer be required.

The 2006 year end syndicate level FSA returns will, therefore, be significantly reduced in size, with greater use made of data reported in the annual return and SRD in order to complete the Lloyd's Return.

This modification applies in respect of the 2006 year end only. The FSA intends to conduct a review of regulatory reporting requirements in the Lloyd's market during 2007, and the waiver should not be taken as indicative of conclusions to be drawn from this review, and likewise should not be taken as precluding the FSA from making any changes to reporting requirements following their full review.

Impact on year end returns

Annual return (due 1 March 2007)

The annual return will be used to provide the summary underwriting account, profit and loss account and balance sheet information in the Lloyd's Return. The information collected in the annual return will not change but the scope of the managing agent and audit reports may need to be expanded to meet the requirements of the Lloyd's Return. We will discuss this matter with our auditors, and a market bulletin will be issued in January confirming the wording of the standard audit reports.

SRD (deadline brought forward to 19 April 2007)

As noted above, the information for elements of the Lloyd's Return will be sourced from the SRD, whereby the analysis by category of business reported in the Lloyd's Return will be aggregated by Lloyd's centrally from the risk code level data collected in the SRD. Lloyd's will centrally use the Xchanging Ins-sure Services data that it receives to apportion business between direct business and facultative, proportional and non proportional reinsurance. The SRD will be subject to central review by the Society's auditors and reconciliation to audited data as collected in the annual return, to the satisfaction of FSA. As this will require

additional review and analysis of the SRD, we need to move the deadline for submission of the SRD forward by one week, to Thursday 19 April 2007.

FSA return (due 26 April 2007)

The FSA return will be significantly reduced compared with previous years. It is estimated that the size of a typical FSA return will reduce from around 300 pages to between 10 to 20 pages. The following forms will no longer be required:

FSA101	Profit and loss account
FSA103	Analysis of underwriting account
FSA108	Analysis of gross claims and premiums by risk group
FSA135	Standard personal expenses
FSA201	Balance sheet assets by trust fund
FSA205	Balance sheet liabilities by trust fund
FSA215	Balance sheet – amount due from members
FSA225	Analysis of technical provisions

Certain forms will still be required as set out in Appendix 1. This includes a new form to collect data regarding financial reinsurances, which is a new requirement for all insurers from the 2006 year end. A draft of this new form is attached at Appendix 2.

Next steps

FSA return forms and instructions

The forms and instructions for the revised FSA return will be made available to the market by Friday 19 January 2007.

Revised managing agent and auditor's reports

We shall review the wording and content of the managing agent and audit reports for the annual and FSA returns, to ensure that the reporting requirements in respect of the Lloyd's Return are covered. The revised reports will be made available to the market by Friday 19 January 2007.

FSA return software

The software for the annual return is now being developed and will be made available in the User Acceptance Test (UAT) environment in February 2007. The software will be basically the same as used for the 2005 Lloyd's Return, except where forms which are no longer required have been deleted, and for the new form collecting information on financial reinsurances as referred to above. Accordingly, we do not expect the UAT stage of the software development to present significant issues. As previously advised in market bulletin Y3890, a test group has been established with the LMA to provide formal feedback on testing but all agents are encouraged to take the opportunity to test and familiarise themselves with the software. If as a result of the testing you do have any issues on the forms and instructions please e-mail them to Market Reporting (Lloyds-MRD-ReturnQueries@lloyds.com). Any queries specific to the software should be sent to ITGDataManagement@Lloyds.com.

The FSA return will be moved to the production environment by no later than Monday 26 March 2007, ie no later than one month before the deadline. In respect of the performance of the production website we continue to encourage all agents to report any issues they have with the performance of the software and accessing the systems as soon as they arise. This will enable the Data Management help desk to help resolve the issue earlier in the process and enable us to monitor service levels in real time and respond quickly as issues emerge. The contact details for the Data Management team 020 7327 5252 (e-mail: ITGDataManagement@Lloyds.com).

SRD

There are no additional requirements regarding the SRD beyond those advised in market bulletin Y3890. In view of the use of the SRD to populate the FSA classes of business in the Lloyd's Return, the level of central review by Lloyd's and its auditors will be considerably more extensive than in previous years.

Queries

Any queries concerning any aspect of the returns should be submitted via e-mail to Market Reporting (lloyds-MRD-ReturnQueries@lloyds.com). Queries will be responded to by the end of the following working day. Please contact me by e-mail (john.parry@lloyds.com) if a response remains outstanding at that time. Any queries regarding this bulletin should be addressed to Paul Tucknott on extension 6169 or Robert Smith on extension 5459.

As noted above, a schedule of frequently asked questions will be made available to agents, as the market works through the various returns. This schedule will be issued through the market returns website. Should any fundamental restatement of preparation instruction be necessary, this will be notified by market bulletin.

This bulletin is being sent to the compliance officers of all managing agents and to recognised accountants.

John Parry
Head
Market Finance

Appendix 1

Expected contents of FSA return – 31 December 2006

Form	Scope	Reason for collection
FSA107: Summary of underwriting movement by class	By reporting year and underwriting class #	To provide summary of underwriting result after expenses by class of business for Lloyd's Return Form 20
FSA145: Long term insurance business	By reporting year (life syndicates only) #	To provide analysis of life business for Lloyd's Return Forms 40, 41 and 42
FSA230: Analysis of derivative contracts	For the whole syndicate (previously required by trust fund)	To provide a breakdown of derivative contracts as required for Lloyd's Return Form 17
FSA741: Statement of major facultative reinsurers	For the whole syndicate (non-life syndicates only) #	For disclosure purposes as a supplementary note to the Lloyd's Return
FSA742: Statement of major treaty reinsurers	For the whole syndicate (non-life syndicates only) #	For disclosure purposes as a supplementary note to the Lloyd's Return
FSA743: Statement of major reinsurance cedants	For the whole syndicate (non-life syndicates only) #	For disclosure purposes as a supplementary note to the Lloyd's Return
New form: Information on financial reinsurances (See draft at Appendix 2)	For the whole syndicate (new requirement for all UK insurers)	For disclosure purposes as a supplementary note to the Lloyd's Return
FSA910: Managing agent's report	-	Managing agent's sign off on FSA return required by FSA
FSA930: Auditor's report	-	Audit of FSA return required by FSA

Requirement unchanged from 31 December 2005 FSA return

Forms no longer required

- FSA101 Profit and loss account
- FSA103 Analysis of underwriting account
- FSA108 Analysis of gross claims and premiums by risk group
- FSA135 Standard personal expenses
- FSA201 Balance sheet assets by trust fund
- FSA205 Balance sheet liabilities by trust fund
- FSA215 Balance sheet – amount due from members
- FSA225 Analysis of technical provisions

Draft form collecting information regarding financial reinsurances

Syndicate: _____

FSA return
31 December 2006

Please complete a separate sheet in respect of each reinsurance contract which needs to be reported in accordance with the instructions:

Currency: CNV only

Reporting year: all reporting years combined

Contract of insurance or financing arrangement?	1	
Financial year first reported	2	
Details of terms and conditions, including type of cover in respect of a contract of insurance	3	
Financial effect on the syndicate's capital resources	4	
Undischarged obligations of the syndicate under the contract	5	
Description of the conditions for the discharge of such obligation	6	

Further information regarding disclosures concerning financial reinsurances may be found on the FSA's online handbook, specifically:

- the addition of PRU 7.1.34A, 9.32A & 9.32B, definition of 'experience account' and
- changes to LLD 15.2.4, and addition of LLD 15.3.6, 15.3.7, 15.13.6A & 15.13.9.