

MARKET BULLETIN

REF: Y4467

Title	2012 ICA Process
Purpose	To update Agents on the 2012 ICA process and timetable and the revised submission requirements
Type	Scheduled
From	John Parry, Chairman ICA Steering Group, Finance, Risk Management & Operations Contact details: 020 7327 5129, john.parry@lloyds.com
Date	2 February 2011
Deadline	Provisional ICA submission: – all syndicates 8 July Final ICA submission: all syndicates 9 September
Related links	Attached documents: Timetable (Appendix 1), Analysis of Change (Appendix 2)

ICA basis and guidance

There is no change to the required basis for the preparation of the ICA, which should continue to be prepared to ultimate as at 1 January 2012 for each syndicate's 2012 and prior years of account. The "2010 ICA Minimum Standards and Guidance" document (attached to MB Y4256 issued 24 March 2009) forms the basis for preparation of syndicate ICAs for the 2012 year of account. Please also see MB Y4381 issued on 12 March 2010 which included further information regarding the treatment of reserve margins and market risk alignment with the horizon for discounting. There are no changes for this year. The minimum standards set out in the "2010 ICA Minimum Standards and Guidance" must be adhered to by all agents for both active and run-off syndicates. The final ICA and submitted figure must be approved by the Board.

2012 process

ICAS

The following approach by Lloyd's to capital setting for 2012 has no bearing on the statutory obligations on managing agents under ICAS to keep their ICA under continuous review.

Resources and interaction with Solvency II

The preparation for Solvency II will draw on the same resources involved in the preparation and review of ICAs for managing agents and Lloyd's. Lloyd's considers that failing to fully meet Solvency II requirements represents a greater risk to the Society than any marginal reduction in adequacy of member level capital for the 2012 account. Consequently, resource should be directed to achieving the desirable outcomes under Solvency II as a priority across managing agents and the Corporation. The ICA timetable has changed for this year to recognise the key deliverables for Solvency II, principally the submission of an SCR by 31 October, and is set out in Appendix 1.

Submission requirements by size of 2011 syndicate final ICA approved by Lloyd's

Tier 1 syndicates (where the 2011 ICA is less than £125m) are required to advise Lloyd's of their ICA, unless they make the election discussed below. Where the agent submits its own ICA, full pro-forma information is required. If making the election to follow Lloyd's benchmark movement, agents must submit the minimum information required to update the Lloyd's benchmark. This information is a subset of the full pro-forma on the same basis as last year. Where Lloyd's has material concerns regarding an agent, we will require an ICA and analysis of change and Lloyd's will conduct a more detailed review – see Tier 2. These managing agents will be advised on a case by case basis.

Lloyd's will review the change in the ICA alongside the relative movement in the Lloyd's Remetrica based benchmark from 2011 to 2012. We expect the movement year on year to be broadly in line with the benchmark and any unreasonable submissions will be loaded to above the benchmark movement. Our view of the resource constraints at agent level and centrally will drive a prudential approach to loadings to compensate for uncertainty, as we consider that there is insufficient time to drill down to parameter level to investigate differences in detail.

Tier 2 syndicates (2011 ICA over £125m) are required to submit the full pro-forma information, but no formal ICA documentation. Lloyd's will review this alongside the benchmark movement and make a judgement on whether more information is required. In September, these syndicates are required to submit an Analysis of Change, including the information in the format set out in Appendix 2.

Election to follow the movement in Lloyd's benchmark for 2012 capital setting

Tier 1 syndicates may elect irrevocably to utilise the movement in the Lloyd's benchmark from 2011 to 2012 for the basis of member level capital setting for the 2012 year of account. The decision will need to be approved by the Board and formally advised to Lloyd's. The decision will then be binding for the whole of the 2012 capital setting season up to and including the mid year CIL test in June 2012. The Board will need to determine the benefits of a reduced workload in a critical year of preparation for Solvency II against the risk that the benchmark does not reflect its own views of the movement in risk year on year. It is important to emphasise that it is only the relative movement year on year that applies – the starting point will be the final approved ICA for 2011 (rebased to year end rates of exchange (US\$1.57: £1)) - and the absolute level of the benchmark compared to the syndicate ICA for 2011 is not part of the process. This election may be made whether a syndicate elected to utilise the benchmark movement in 2011 or not. Agents should click the reduced pro-forma radio button and then only complete:

Form 301 lines 13, 14 & 15; Form 305 line 4; Form 306 all lines

Interaction with business plans

For non-aligned syndicates, the first ICA submission in July, including the pro-forma, should be based on the SBF submitted.

For aligned syndicates, the first ICA submission may be based on a roll over of the latest 2011 approved plan in terms of premium volumes, exposures and loss ratios etc. Alternatively, where aligned agents have produced an initial 2012 plan on which the ICA is based, a full first SBF submission is required. The options that were available last year, with cut down versions of SBFs, were unsuccessful in providing clarity as to the basis of the ICA.

The final ICA should be submitted on 9 September for all syndicates alongside the SBF. This is the dataset that the Lloyd's review will focus on. We appreciate that this is prior to the business plan review process, but consider that agents and Lloyd's will need to focus on the Solvency II SCR requirements in October and the ICA reviews and feedback need to be dealt with in September / early October. This delinks November 2011 capital from the final plan, although with substantial reliance being placed on the ICP benchmark, amended agent loss picks may be less relevant than in a normal year. Other business plan adjustments such as line sizes do not generally form material drivers of ICAs.

With respect to premium volumes, members will be required to capitalise in November based on the latest submitted plan. Where the plan is challenged and reduced through the review process, member capital will be adjusted in June 2012, not November 2011. The review of any required adjustments would be completed by Lloyd's in February 2012.

Where the final approved plan is considered by Lloyd's to have materially increased volumes and / or risk, we will set the final syndicate ICA for member capital setting in November by adopting the ICP movement to the initially agreed ICA (and plan). Any other changes or agent challenge would again be addressed in February. Minor increases will be taken into account for capital setting in June 2012.

Where there is a market changing event, a pragmatic approach will be adopted for changes to assumptions.

Pro-forma information

The Lloyd's benchmark draws on the projected claims reserves and unearned premium figures as at December 2011. For a number of agents, the initial submission of the projected technical provisions last year required revision. Please note that this is a significant dataset for the benchmark and Lloyd's will review this carefully, comparing figures to the actual December 2010 reserves and requiring re-submissions where applicable.

Guidance on reserve margins

The treatment of reserve margins adopted for 2011 will continue for 2012. The permissible credit for reserve margins is set at a maximum of 75% of the margin held, is discretionary and will be assessed in line with a syndicate's historical performance as well as the guidance standards. The critical

evidence that Lloyd's will consider in support of the margin is the information provided in the Statement of Actuarial Opinion (SAO) as at December 2010. The QMA includes a requirement for agents to confirm that the reserve margin claimed remains in force. Lloyd's will not recognise any prospective margins irrespective of the formulaic or other approaches adopted by agents. Lloyd's will also take into consideration the relative strength of syndicate reserves based on the output of the Reserve Benchmarking Index. We recognise the limitations of central projections and any benchmarking exercise, but would advise agents that a relatively low quartile result will lead to follow up work and re-assessment by Lloyd's prior to recognition of any margin as an asset.

Economic uplift

Lloyd's will continue to apply an uplift to syndicate ICAs for economic capital requirements at member level. The uplift (currently 35%) is reviewed annually by the Franchise Board in the second quarter taking into account current market conditions. The outcome of the review will be communicated to the market in June.

Specialist RITC and run-off syndicates

Agents managing specialist RITC syndicates and run-off syndicates should note the timetable attached, but more guidance on timings and submission requirements will be provided in February.

Exchange rates

The Lloyd's benchmark will use the FAL rate as at 30 June 2011 (as determined for CIL) when available. The initial ICAs should be based on the preliminary rates issued for preparation of the July SBF submissions. All later submissions must be based on the 30 June rates to align capital requirements with the valuation of syndicate net assets and FAL.

John Parry
Chairman, ICA Steering Group

APPENDIX 1

2011 CAPITAL TIMETABLE FOR ICAs		Deadline	Lloyd's Owner
Provision of year end actuarial reports including details of reserve margins	Agents	31-Mar-2011	Jerome Kirk
Provision of updated ECAs for all syndicates and members using year end rates of exchange and post Dec 2010 RITCs	Lloyd's	28-Apr-2011	Neil Wells
ULRs for 2012 provided to CALM for consultation	Lloyd's	31-May-2011	Tracey Moore
Feedback on ULRs from CALM	Agents	21-Jun-2011	Tracey Moore
Full and final parameters set for ICP for all years of account including ULRs	Lloyd's	30-Jun-2011	Harjit Saini
Existing members to provide additional Funds at Lloyd's (FAL) and supporting documents to clear mid year coming-into-line (CIL) shortfalls	Agents	30-Jun-2011	Angela Kerr
Valuation date for November coming-into-line exercise and final FX rates for SBF and ICAs	Lloyd's	30-Jun-2011	Robert Smith
Reserve Benchmarking index available on all agents	Lloyd's	30-Jun-2011	Jerome Kirk
Managing Agent submission of non-aligned syndicate business forecasts for 2012 via Core Market Returns website	Agents	08-Jul-2011	Phil Sloan
Managing Agent submission of aligned syndicate business forecasts for 2012 where preparing a full pro-forma and ICA based on 2012 plans	Agents	08-Jul-2011	Phil Sloan
Non-aligned syndicates: Submission of (1) syndicate Individual Capital Assessment pro-forma in full if providing an SBF with 2012 plan or (2) irrevocable election to follow Lloyd's benchmark for Tier 1 syndicates and reduced pro-forma including reserve projections	Agents	08-Jul-2011	Kevin Barnes
Aligned syndicates: Submission of (1) syndicate Individual Capital Assessment pro-forma in full if based on 2012 plan alongside SBF submission or (2) irrevocable election to follow Lloyd's benchmark for Tier 1 syndicates and reduced pro-forma including reserve projections via Core Market returns website or (3) reduced pro-forma including reserve projections if no developed 2012 plan and initial ICA based on 2011 rollover	Agents	08-Jul-2011	Kevin Barnes
Submission of all reserve margins claimed by managing agents	Agents	08-Jul-2011	Jerome Kirk
Indicative syndicate ECA files to managing agents (based on 2011 YOA ICA submissions and benchmark movement)	Lloyd's	05-Aug-2011	Neil Wells
Indicative Member Modelling Software Release (based on benchmark movement or preliminary 2012 ICA submissions - pre-review)	Lloyd's	05-Aug-2011	Neil Wells
Feedback to agents regarding reserve projections completed	Lloyd's	05-Aug-2011	Jerome Kirk
Member Modelling Software Update (based on benchmark movement or preliminary reviewed 2012 ICA submissions)	Lloyd's	26-Aug-2011	Neil Wells
Feedback on ICP movement, reserve margin assessment and indicative IC	Lloyd's	26-Aug-2011	John Parry
Final date for Tier 1 syndicates to make irrevocable election to follow Lloyd's benchmark for capital setting	Agents	09-Sep-2011	Neil Wells
Managing Agent submissions of non-aligned AND aligned syndicate business forecasts for 2012	Agents	09-Sep-2011	Phil Sloan
Submission of (1) syndicate Individual Capital Assessment pro-forma in full or (2) having elected irrevocably to follow Lloyd's benchmark for Tier 1 syndicates, reduced pro-forma including reserve projections	Agents	09-Sep-2011	Kevin Barnes
Submission of Analysis of change for all Tier 2 syndicates	Agents	09-Sep-2011	Kevin Barnes
Member Modelling Software Update (based on September submitted ICAs and SBFs - pre-review)		20-Sep-2011	Neil Wells
Completion of SG sign-off for all ICAs	Lloyd's	21-Oct-2011	John Parry
Final ECA Member Modelling software Update (including final agreed syndicate ECAs)	Lloyd's	28-Oct-2011	Neil Wells
Member agents to confirm their names are in line by the coming into line deadline.	Agents	28-Nov-2011	Angela Kerr
Direct Corporate participants must confirm that they are in line by the coming into line deadline	Agents	28-Nov-2011	Angela Kerr

APPENDIX 2

ICA 2012 YOA

2 FEBRUARY 2011

Analysis of change

Analysis of change

Introduction

This document sets out the level of detail required within an analysis of change document supporting the 2012 year of account ICA calculation. Any other material issues relevant to syndicate capital setting should also be included. The document should be clear and concise and as a guide, should not run to more than four pages in addition to this template. If you have any questions please contact your Solvency II account manager or email Solvency2@lloyds.com

Breakdown of movement

Please explain the methodology that has been used to estimate the figures below. For example:

- the change in capital following the update of each element in the order shown
- the marginal change in capital of each element in isolation scaled to the overall movement
- other – please explain

Please also state the GWP and date of submission on the CMR portal for the SBF associated with the first and last items in the table.

	Pre-diversification capital £m	Post-diversification capital £m	% Change/difference
Final 2011 ICA			
+ movement in exchange rates (\$1.50 to \$X.XX)			
= rebased 2011 ICA			
+ agreed methodology developments (further splits as required)			
+ update reserve risk (incl. change in projected reserves etc)			
+ update premium volumes and business mix (2011 unearned and 2012 yoa)			
+ update catastrophe risk and RDSs			
+ update ULRs			
+ update market risk (incl. yield curve, asset mix etc)			
+ update to remaining parameters / risk groups			
+ update to diversification between risk groups			
= 2012 ICA			

Please also give an indication of the simulation error that the figures in the analysis of change are subject to (\pm £10m or \pm 2%).

We are not mandating the use of these specific drivers for the analysis of change. However, if there is not enough clarity and granularity in the analysis of change agents should expect a greater level of scrutiny.

Analysis by FSA risk group

		2012 ICA pre diversification		2012 ICA post diversification		2011 ICA pre diversification		2011 ICA post diversification	
		£m	%	£m	%	£m	%	£m	%
Insurance risk – Total									
	Underwriting risk								
	Reserving risk								
Credit risk – Total									
	Reinsurance credit risk								
	Other credit risk								
Market risk									
Liquidity risk									
Operational risk									
Group risk									
Total									
Diversification between categories									
Diversified Total									

There should be a discussion of each FSA risk category (pre and post diversification) explaining any movements.

- Basis of calculation
- Total margin as at 31st December 2010 (should be consistent with SAO)
- Amount claimed against ECA