LLOYD'S

MARKET BULLETIN

REF: Y4644

Title	Canadian Earthquake Regulatory Reporting
Purpose	To provide an update to all managing agents for the new ERRO[1] return timetable to Lloyd's Exposure Management team.
Type	Scheduled
From	Trevor Maynard, Head of Exposure Management Performance Management Directorate 020 7327 6141 trevor.maynard@lloyds.com
Date	Thursday 6 December 2012
Deadline	See below
Related links	Business Timetable on Lloyds.com

PURPOSE

With reference to Market Bulletin Y4083 titled 'Canadian Earthquake Reporting' that informs managing agents of the requirement to submit earthquake data to meet regulatory requirements in Canada, the purpose of this bulletin is to provide an update to managing agents of the change to the frequency of the ERRO return to twice yearly.

GUIDANCE

As part of the work undertaken for the Lloyd's Dynamic Capital Adequacy Test (DCAT) as required by the Canadian Regulator OSFI[2], Lloyd's demonstrates annually that we have sufficient reserves/capital in place to withstand a significant earthquake event in the Canadian provinces of British Columbia and Quebec. The last full scale exercise was conducted in Q4 2012 based on the 1st July RDL 2012 return.

For every year Lloyd's performs the ERRO calculation, the return period increases by 10 years up to the target of 500 years (year 2022). For the 2013 YoA this equalled 400 years. The 250 year and 500 year losses for the larger of the British Columbia or Quebec events is used for the calculation which is then compared to 10% of Lloyd's Capital & Surplus. OSFI are currently consulting on whether to extend the test to an 'all Canada' return period which would further strengthen the test.

1. Earthquake Reserve Requirement for OSFI

2. Office of the Superintendent of Financial Institutions

3. As set out in the OSFI Guidelines Appendix 1: Earthquake Reserve Formula

Currently, the ERRO calculation is performed using mid-year RDL data based on effective exposures and syndicate reinsurance programmes as at 1st July, and as such, any shortfalls are to be funded by syndicates for the respective YoA in Canadian Regulated trust funds.

TWICE YEARLY CALCULATION

Please be advised that with immediate effect, Lloyd's will no longer calculate the ERRO once a year solely through the Realistic Disaster Scenarios Light (RDL) return, but will also collect it using the Realistic Disaster Scenarios (RDS) return. Performing the ERRO calculation twice per annum will allow Lloyd's to recalculate the ERRO based on syndicate exposures and reinsurance programmes as at 1 July and then at 1 January. In light of the yearly increasing nature of the calculation, this will ensure the efficient and appropriate use of capital held in Canada. **Therefore, please be advised that managing agents are now required to submit Canadian Earthquake losses with the main RDS return (exposures as at 1st Jan) in addition to the mid-year RDL return (exposures 1st July).**

Syndicate Canadian earthquake losses collected in the RDL will continue to be collected via the Core Market Returns (CMR) system. We do not intend to collect the full risk code and reinsurance recovery data as at 1 January, as this will ease the reporting burden on syndicates. Therefore, Lloyd's will collect the 1 January information via the RDS Supplementary information Template accompanying the main RDS return. As with all supplementary information requirements, the data is essential to Lloyd's and therefore must be completed to the normal governance process and rigour as with all RDS returns. Please refer to Fining Regime section below.

The four Canadian scenarios[4] will be applicable for both RDS and RDL returns where Syndicates are to supply:

- Gross Losses
- Net Losses (losses after reinsurance recoveries)
- Final Net Losses (losses after reinstatement premiums in and out), and
- Any comments a syndicate may wish to accompany the return.

Both RDS and RDL ERRO returns are compulsory and must be completed by managing agents for all syndicates. The '*de-minimis*' reporting thresholds do not apply. Where a syndicate has zero exposure to a Canadian event, managing agents are to submit a 'nil' return.

Unless advised at a later stage the four Canadian events do not form part of the Syndicate Business Forecast (SBF) process and are currently not subject to the Lloyd's RDS Franchise Guidelines.

For the ERRO RDS return, managing agents are asked to calculate their own expected losses assuming that the events occurred on 1st January (the "Effective Date"). For the ERRO RDL return, managing agents are asked to calculate their own expected losses assuming that the events occurred on 1st July (the "Effective Date").

4. British Columbia 250 and 500, and Quebec 250 and 500 year events

Additional supporting guidance will be made available in the respective RDS and RDL Guidance & Instructions Document released by the Lloyd's Exposure Management Team.

FINING REGIME

It is a requirement of the Council of Lloyd's that Realistic Disaster Scenarios (RDS) and Realistic Disaster Scenarios Light (RDL) returns are correctly completed and submitted on time. As the ERRO return will be integrated into the formal RDS framework (as with RDL), failure to submit the Canadian losses on time is a breach of the Underwriting Byelaw and may therefore result in a fine being imposed.

ADDITIONAL REFERENCE NOTES

Managing agents are referred to the section of the current OSFI guidance on Board and Management Oversight (p6), which requires that companies should have documented written policies and procedures outlining how they manage earthquake insurance risk. Further OSFI-related information can be accessed via the link below.

Official OSFI Guidance (issued in 1998)

FURTHER INFORMATION

Should you have any further questions or require any additional information please contact me.

Trevor Maynard
Head, Exposure Management and Reinsurance
Performance Management Directorate
020 7327 6141
trevor.maynard@lloyds.com