

MARKET BULLETIN

REF: Y4894

Title	Franchise Guidelines - change to the catastrophe exposure and gross line size Guidelines
Purpose	To inform the market that the Franchise Guidelines have been changed and that the revised catastrophe exposure Guideline will come into effect immediately and gross line size Guideline will come into effect for 2016 Business Plan approval process.
Type	Event
From	Tom Bolt, Director, Performance Management +44 (0)20 7327 6700 Tom.Bolt@lloyds.com
Date	1 May 2015
Deadline	The new gross line size Franchise Guideline will be considered as part of the 2016 Business Planning process (during H2 2015) and the revised catastrophe exposure Guideline should be considered with immediate effect.

Related links

History

As part of The Chairman's Strategy Group (CSG) in 2002, Lloyd's worked with the market to agree a set of Franchise Guidelines to help managing agents to optimise and, where necessary, improve the performance of their syndicates, including guidelines which relate to Realistic Disaster Scenarios (RDSs) and Gross Line sizes.

Reason for change

Lloyd's is moving towards using Gross Written Premium metrics for market oversight and reporting, which will enable Lloyd's to be more aligned with the wider insurance world.

To reflect the change, the metrics used within the Franchise Guidelines have been reviewed.

The intention to update Franchise Guidelines, subject to Franchise Board approval, was communicated at Tom Bolt's presentation to the market on Gross Premium Project on 14 April 2015. The revised Guidelines were approved by Franchise Board on 23 April 2015.

Existing Franchise Guidelines

The current Franchise Guideline for catastrophe exposure specifies maximum exposures expressed as a percentage of “Gross Net Premium” & “Syndicate Economic Capital Assessment” and both tests must be met simultaneously as follows:

“The maximum gross and final net exposures to a single Lloyd’s specified aggregate exceedance probabilities (AEP)/ Realistic Disaster Scenario (RDS) event for a Syndicate are subject to the following thresholds:

- (1) up to 80% and 30% of Gross Net Premium (GNP) respectively; and*
- (2) up to 80% and 30% of Syndicate ECA respectively.”*

The current Guideline for gross line size specifies maximum gross line based on “Gross Net Premium”:

“The maximum gross line that a syndicate should have on an individual risk is 10% of Gross Net Premium.”

Revised Franchise Guidelines

With immediate effect the catastrophe exposure Franchise Guideline measure based on “Gross Net Premium” will be dropped and the Guideline revised as follows:

“The maximum gross and final net exposures to a single Lloyd’s specified aggregate exceedance probabilities (AEP)/ Realistic Disaster Scenario (RDS) for a Syndicate are subject to the following thresholds: up to 80% and 30% of Syndicate Economic Capital Assessment (ECA) respectively.”

With effect from 1 January 2016 the Franchise Guideline in respect of gross line size will be expressed as a percentage of “Gross Written Premium” and the threshold changed:

“The maximum gross line that a syndicate should have on an individual risk is 8% of Gross Written Premium.”

Further Information

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

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