MARKET BULLETIN

REF: Y4980

Title	2017 Capital and Business Planning process
Purpose	To update managing agents on the 2017 syndicate business planning process and timetable for all syndicates.
Type	Scheduled
From	Theresa Froehlich – Head of Underwriting Performance – Performance Management (PMD)
Date	24 March 2016
Deadline	Submission deadline for 2017 capital and planning process: Syndicate Business Forecast (SBF): **6 September 2016 (1pm)** Lloyd's Capital (LCR) Returns (all syndicates): **13 September 2016 (1pm)**
Related links	**2016 SCR guidance notes:** *http://www.lloyds.com/~/media/files/the%20market/operating%20at%20lloyds/solvency%20ii/2015%20guidance/scr%202016%20yoa%20guidance.pdf*

Significant changes to the Syndicate Business Plan process

Lloyd's Franchise Board has approved on 21 March 2016 that for the 2017 Capital and Planning process syndicates will only need to submit a final SBF and LCR in September; the previous years' requirement to submit provisional SBF and LCR returns in July has been removed.

The above decision reflects the advices provided by the Market during the CPG review exercise and is intended to closely align Lloyd's internal planning process to the Market and reduce the data burden significantly.

Timetable for prospective year (2017) SBF Returns

All syndicates, aligned and non-aligned, are required to submit a Syndicate Business Forecast (SBF) Return in September 2016 for the 2017 prospective year of account.

The deadline for final submission of the 2017 SBF Return is 6 September 2016 (by 1pm).

All final 2017 SBF Returns submitted on 6 September must be approved by the managing agency board: where this is not possible due to scheduled board meetings timing, the post-submission managing agency board approval must be notified within one week from the submission to the Capital and Planning secretariat.

In order to assist managing agents' preparation, the final 2017 SBF Return will be made available in the Core Market Returns system (CMR) on 4 July 2016.

The final 2017 exchange rates, as at 30 June 2016, will also be available on CMR on 4 July 2016.

2017 High level plan information

Although Lloyd's will not require a full SBF return on the Core Market Returns system in July, the Syndicate Underwriting Performance team will hold Strategic Business Plan discussions in early summer to discuss syndicates' 2017 developments.

There will also be a collection of high level plan data via a pre-populated spreadsheet for key metrics. This will be sent out to syndicates in early June and will be due back to SUP on 6th July. It will be a significant reduced data requirement compared to last year business plan.

The aim of these Strategic Business Discussions and the High Level Plan information is to produce "no surprises" in the September full SBF submission.

Please refer to the "Key 2017 deadlines" - Appendix 1 for more details.

Resubmission of the current year (2016) SBF

Managing agents are required to apply to Lloyd's for prior approval where there is a proposed material change to the latest approved SBF plan. Managing agents that are considering any change to an approved SBF plan should contact their Syndicate Underwriting Performance (SUP) Account Executive in the first instance to discuss whether the proposed change is considered by Lloyd's to constitute a material change, and therefore requires a resubmitted SBF plan. Please note that a material change can include a premium reduction against the latest approved SBF plan.

A re-submitted SBF that contains material changes to planned catastrophe risk is likely also to require revised Lloyd's Catastrophe Model (LCM) forecast factors to be submitted (see Exposure Management Framework section below). This should be discussed with Lloyd's Exposure Management.

SBF basis and guidance

In order to reduce the data burden reporting, improve the data quality and ensure that specific regulatory requirements are met, key changes have been implemented in the 2017 SBF Return.

- Additional data validations added to reduce the need of resubmissions due to data inconsistencies across the return.
- In order to meet the regulatory reporting requirements, syndicates are specifically required to provide the details of their line sizes in each distribution channel
- Specific classes of business lines sizes reporting requirements
- Special Purpose Syndicate (SPS) reporting requirements
- Changes in the Lloyd's Catastrophe Risk Framework (see below)

Full guidance will be available in the 2017 SBF Instructions that will be published in the CMR by mid-May 2016 which will specifically include both SPS and Lines sizes reporting requirements.

None of those changes requires a system change nor specific testing from the Market.

For your information, Lloyd's is also investigating feasibility of the following SBF improvements:

(a) In order to reduce the data burden reporting, a number of SBF forms could be discretionary and syndicates could choose to complete them based on their internal process and data system. Please note that at the moment, this option would not apply to syndicates that are involved in the Auction process since their data feed to the members agencies will be still considered indispensable. If this amendment is viable, it will apply to both 2016 SBF re-submissions and 2017 final SBF submissions.

(b) Drop-down selection for specific classes of business line size reporting requirements

(c) Removal of reference to Qualifying Quota Share (QQS)

Should any of the above changes (a,b and c) apply, the following process might be in place depending on the impact on the CMR system:

- In order to allow Lloyd's to update the 2017 SBF Return on the CMR and archive the existing SBF plans, syndicates will not be able to submit any SBF Return during the period 24 June 2016 (after 1pm) to 3 July 2016.
- As such all 2016 revised SBF plans must be approved on the CMR by 24 June 2016 1pm, before the archive process starts. Please note that whilst managing agents can technically resubmit a 2016 SBF plan using the 2016 SBF Return until 24 June 2016, it is strongly advised that enough time is given to Lloyd's to review and approve the SBF plans on the CMR before this deadline.
- Any 2016 SBF plan still outstanding on CMR after 1pm on 24 June will not be available any longer for review or approval. On 4 July 2016, when SBF Returns can once again be accepted on CMR, any revised 2016 SBF plan will need to be submitted on the revised layout.

The Market will be kept informed through LMA to ensure that appropriate actions can be taken within the business planning timeframe.

Exchange rates

Lloyd's sets prescribed exchange rates that are to be used during the SBF process.

Final SBF submissions in September should be based on Lloyd's final exchange rates. These will be set as at end of June 2016 and will be communicated to managing agents in a Market Bulletin on 1 July 2016. The final exchange rates will be available on the CMR from 4 July 2016.

The final exchange rates used for 2017 SBF submissions will be consistent with those required for the Lloyd's Capital Returns (LCR).

2017 Lloyd's Catastrophe Risk Framework

As before, there are two parts of the SBF process which relate specifically to catastrophe risk.

1. <u>Projected catastrophe losses changes</u>

Form SBF452 contains projected catastrophe losses on both a probabilistic and a deterministic basis (AEP 1-in-30 and Realistic Disaster Scenarios [RDS] respectively).

The following Realistic Disaster Scenarios/AEP figures have been **removed** from the business planning process and are no longer present in the SBF:-

a) Natural catastrophe risk
b) Satellite risk
c) Political risks
d) 1:30 AEP for Japan Windstorm, Japan Quake and European Windstorm

And the following elements have been **added**:

a) A 'whole world' AEP measure.

The new AEP measure will be subject to Lloyd's Franchise Guidelines and the details will be announced in due course.

2. LCM forecast factors

Managing agents should submit LCM forecast factors. These do not form part of the SBF submitted through CMR, but should be uploaded separately to Lloyd's Exposure Management Secure Store on or before the submission date for the final SBF in September 2016.

LCM forecast factors are an integral part of Lloyd's planning process. Therefore, material changes of planned catastrophe risk at any time may require LCM forecast factors to be re-submitted along with a revised SBF.

Interaction with the capital setting process (Solvency Capital Requirements - SCRs)

The SBF plans review will be conducted in co-ordination with the capital review by the Capital and Planning Group (CPG). Accordingly, agents should expect to deal with a number of different staff members in a co-ordinated manner during the review periods with the main capital contact being the allocated MRC actuary.

Only one Lloyd's Capital Return (LCR) submission will be required for each syndicate via CMR. Each submission should contain SCRs for both a "one-year balance sheet to balance sheet" and a "one-year to ultimate" basis.

The LCR submission date is:

13 September 2016 (by 1pm)

- The 2017 LCR which should be accompanied by an analysis of change document covering any changes from the previous submission (YOA 2016).
- The 1pm deadline applies to all syndicates.
- The LCR should be based on the final SBF submission due on 6 September 2016.

The aligned syndicate capital setting assessment process is under review, the expectation is for the review timeframe to be extended through to February 2017 for capital setting purposes only. Further details will be provided in the SCR guidance at the end of April.

These dates are in line with the business planning and capital setting timetable and are based on the assumption that SCRs will be used for 2017 capital setting.

Further guidance and clarification on the format of the LCRs will be included within the 2017 SCR guidance, due to be available on www.Lloyds.com by the end of April 2016. In the meantime the 2016 guidance notes are available via the following link: *http://www.lloyds.com/~/media/files/the%20market/operating%20at%20lloyds/solvency%20ii/2015%20guidance/scr%202016%20yoa%20guidance.pdf.*

Syndicate Own Risk and Solvency Assessment (ORSAs)

Lloyd's needs to demonstrate that it is using syndicate ORSAs in its business plan review process, in particular, for the assessment of the longer term strategy of the syndicate. Therefore managing agents are required to affirm that the mid to long term plan set out in in their March 2016 ORSA submission or any subsequent version submitted to address Lloyd's feedback remains appropriate. This affirmation will form part of the final SBF Return in September 2016 and should be reported in form 990 under "add any return comments" section.

If the assumptions set out in the ORSA submitted to Lloyd's no longer remain appropriate, managing agents will need to provide an updated set of assumptions to their SUP Account Executive.

2017 CPG approval deadlines

The feedback to managing agents will be provided by the following deadlines:

- Non-aligned syndicate: final 2017 SBF and Capital setting – 21 October 2016
- Aligned syndicate: final 2017 SBF and Capital setting – 21 November 2016
- Coming Into Line – 1 December 2016

Additional information

Any queries relating to this Market Bulletin should be discussed with your SUP or MRC Account Executive or sent by email to:

- the business plan mailbox: *Lloyds-businessplans@lloyds.com*
- or CPG secretariat: *CPG@lloyds.com*

APPENDIX 1:

Key 2017 deadlines