

# MARKET BULLETIN

REF: Y5083

<b>Title</b>	2018 Capital and Business Planning process
<b>Purpose</b>	To update managing agents on the 2018 syndicate business planning process and timetable for all syndicates.
<b>Type</b>	Scheduled
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<b>Date</b>	10 April 2017

## 2018 Syndicate business planning process

In the spirit of continuing to improve business planning and capital approvals, the Capital and Planning Group (CPG) and Lloyd's Market Association (LMA) have worked together to gather feedback from the market on last year's CPG process.

Based on that feedback and our own recommendations, a number of changes are being made to the process for 2017.

### 1. 2018 High Level Plan (HLP) data reduction, plus no Solvency Capital Requirement (SCR) submission in July.

Feedback indicates that many syndicates are not ready to provide accurate data in July, and so the 2018 HLP data collection will be significantly reduced:

1. Only eight key metrics will be collected (see below),
2. Data will be required at whole account level only, and
3. Any class of business data by platform data requirement has been removed.

The key metrics to be provided are:

- Gross Written Premium (GWP)
- Gross Ultimate Loss Ratio
- Reinsurance spend as a percentage of GWP
- Net ultimate loss ratio
- Admin expenses as a percentage of GWP
- Acquisition Costs as a percentage of GWP
- Net Underwriting results
- Combined Ratio

These changes will materially reduce the data burden for the market but will still enable the Lloyd's Performance Management Division to understand the headline plans for the syndicate business as well as any material change in strategy or direction. Narrative supporting the strategy, and any material changes to business plans (for example: new classes, material line size changes, actions running counter to the market messages), will still be required.

Our focus will be to continue to collect qualitative updates during the 'Strategic Business Discussions' (SBD) with your Syndicate Business Performance (SBP) executive, which will take place during June. It is important to stress that Managing Agents are responsible for sharing if any material change is anticipated, whether likely or possible at that stage, to help avoid any surprises at the September submissions.

In line with last year's process, Lloyd's will continue to collect HLP data via Sharepoint. The template will be sent out to syndicates at the end of May and we request submissions by 6<sup>th</sup> July. Specific guidelines on how to complete the template, including applicable exchange rates, will be available at the end of May.

Syndicates are not required to submit any information on SCR in July.

## **2. Revised September submission deadlines for the Syndicate Business Forecast (SBF) Return and Lloyd's Capital Return (LCR) to better reflect syndicate's capital structure**

Aligned and non-aligned syndicates have in the past worked to the same final submission deadline, whilst CPG reviews non-aligned syndicates first to support the October auction process, and then reviews the aligned syndicates later.

Feedback from the market, especially from aligned syndicates, suggests that additional flexibility and time would allow for a far more robust submission of better data.

We will therefore introduce two distinct deadlines for the 2017 process.

The deadlines will apply as follows:

	<b>Capital Structure</b>	<b>SBF deadline (by 1pm)</b>	<b>LCR deadline (by 1pm)</b>
<b>Group 1</b>	Syndicate with spread member capital and Managing Agents with Special Purpose Arrangements (SPA)	6 <sup>th</sup> September	13 <sup>th</sup> September
	Syndicates with member consolidation requirements	6 <sup>th</sup> September	13 <sup>th</sup> September
	Managing Agents with multiple syndicates – where at least one is required to submit on 6 <sup>th</sup> Sept (see above)	6 <sup>th</sup> September	13 <sup>th</sup> September
<b>Group 2</b>	Syndicates with members who have Letter(s) of Credit (LoC)	2 <sup>nd</sup> October	2 <sup>nd</sup> October
	Syndicates with dedicated single member corporate capital	2 <sup>nd</sup> October	2 <sup>nd</sup> October

### **3. Allow managing agents to make direct representation to CPG – pilot in 2017**

Your feedback has told us that Managing agents would like, in appropriate cases, to present business plans directly to CPG.

We will therefore pilot a small sample of managing agents attending CPG. The lessons learned will help us expand this approach to more syndicates in 2018.

A fair and transparent approach will of course be adopted to ensure all managing agents are given an equal opportunity, to make representations at CPG of their syndicate business plans.

### **Resubmission of the current year (2017) SBF and impact on Lloyd's Catastrophe Model (LCM) forecast factors and capital requirement**

Syndicates are required to apply to Lloyd's for prior approval if there is proposed material change to the approved SBF plan. Syndicates that are considering any change to an approved SBF plan should contact their SBP Account Executive to agree whether or not the proposed change is a material change. Please note that a material change can include a premium reduction against the latest approved SBF plan, as well as a premium increase.

A revised SBF which contains material changes to planned catastrophe risk is likely 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 Risk Aggregation team. Managing agents must also consider if the capital requirement is still an adequate reflection of the current risk profile. If after making the business plan changes there is a material movement in the ultimate SCR then you should contact your MRC to discuss any further actions.

## **2018 SBF basis and guidance**

For 2018, there are no changes to the SBF data requirements from the Market.

- Line sizes. The class of business team (COB) is completing the definition of the few outstanding classes from the 2016 project. The market is therefore required to apply these definitions to all their classes of business and report accordingly. This does not require a systems change nor specific testing from the Market.

In order to assist managing agents' preparation, the final 2018 SBF Return will be made available in the Core Market Returns system (CMR) on 10 July 2017.

Full guidance will be available in the 2018 SBF Instructions which will be published in the CMR by mid-May 2017, and which will specifically include the line sizes definitions.

Should any unforeseen changes be required, the Market will be kept informed through the LMA to ensure that appropriate actions can be taken within the business planning timeframe.

### **- Exchange rates**

Lloyd's prescribes 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 2017 and will be communicated to managing agents in a Market Bulletin on 1 July 2017. The final exchange rates will be available on the CMR from 10 July 2017.

The final exchange rates used for 2018 SBF submissions will be consistent with those required for LCRs.

### **- Lloyd's Catastrophe Risk Framework**

There are two parts of the SBF process which relate specifically to catastrophe risk:

#### **1. Projected catastrophe losses changes**

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

## 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 Risk Aggregation (LCM Secure Store on or before the submission date for the final SBF in September 2017).

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 (SCRs)**

The SBF plan review will be conducted in co-ordination with the capital review by the 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 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 2018 LCR should be accompanied by an analysis of change document covering any changes from the previous submission (YOA 2017).

Submission of validation reports, via email to [SCRReturns@lloyds.com](mailto:SCRReturns@lloyds.com), will follow the deadlines listed below:

- 1) LCR submitted on 13<sup>th</sup> September: Validation report must be submitted by 1 pm, 22<sup>nd</sup> September
- 2) LCR submitted on 2<sup>nd</sup> October: Validation report must be submitted by 1pm, 9<sup>th</sup> October

### **Syndicate Own Risk and Solvency Assessment (ORSAs)**

Lloyd's must 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 confirm that the mid-to-long term plan set out in their March 2017 ORSA submission or any subsequent version submitted to address Lloyd's feedback remains appropriate.

This confirmation will form part of the final SBF Return in September 2017 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 must provide an updated set of assumptions to their SBP Account Executive.

**2018 CPG approval deadlines**

Agreement confirmation to managing agents will be provided by the following deadlines:

	<b>Capital Structure</b>	<b>CPG deadline</b>
<b>Group 1</b>	Non-aligned syndicate: final 2018 SBF and Capital setting	20 <sup>th</sup> October
<b>Group 2</b>	Aligned syndicate: final 2018 SBF and Capital setting	20 <sup>th</sup> November
<b>All</b>	Coming Into Line	1 <sup>st</sup> December

Please refer to the “Key 2018 deadlines” - Appendix 1 for more details.

**Additional information**

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

- the business plan mailbox: [Lloyds-businessplans@lloyds.com](mailto:Lloyds-businessplans@lloyds.com)
- CPG secretariat: [CPG@lloyds.com](mailto:CPG@lloyds.com)

# Appendix 1. Key 2018 deadlines

