

Market Bulletin

Ref: Y5303

Title	Economic Capital Assessment (ECA) Process for 2021 Underwriting Year of Account
Purpose	To set out the ECA process for the 2021 underwriting year, including basis of calculation, and arrangements for distribution of the Member Modelling Software ('Member Modeller')
Type	Scheduled
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Date	18 August 2020
Deadline	See business timetable on Lloyds.com for all capital return submission dates
Related links	<p>SCR Guidance Documentation (access via: Lloyds.com > Market Resources Capital-and-Reserving > Capital Guidance > Internal Model SCR > Guidance Issued)</p> <p>ECA Guidance Manual (access via: Lloyds.com > Tools and Systems > Member Modelling Software)</p>

Introduction

This Bulletin confirms the key process points to note for the setting and modelling of member capital for the 2021 underwriting year, during calendar years 2020/21.

Readers of this Bulletin should also ensure that they are familiar with the fundamental process points set out in the ECA Guidance manual linked above.

Key Points to Note:

- *The SBF and LCR submission timetable is staggered between 4 phases, as set out in Market Bulletin Y5292, to offer maximum flexibility within the constraints of business process deadlines.*

- *The initial indicative Member Modeller release on 20th August will be based on a roll forward of 2020 data only, with no updated syndicate information.*
- *The key change to the Member Modeller is the addition of a 'syndicate view', so that members and their agents can view the latest ECA and Capacity of syndicates on which they participate. For members' agents this will replace the report provided over secure store and will be available immediately when Member Modeller is updated.*
- *The underlying Lloyd's model has been updated to reflect a correlation between market risk and insurance risk and the latest economic conditions. As a result, members are likely to see a small reduction in the diversification benefit in their capital calculation.*
- *The scheduled phased introduction of a limit on the proportion of Tier 2 (letters of credit) capital allowed by members within FAL completes as planned, with maximum exposure reduced to 50% of ECA from 1 December 2020. Full details on the implementation of these measures and those relating to covering solvency deficits were provided in Market Bulletin Y5177, dated 12 April 2018.*

Market Data Collection (MDC) Platform

The 2021 returns are live for both the LCR and SBF in the MDC platform.

The LCR and the MDC platform have undergone further development. The key changes are listed below (for full details see *SCR guidance Documentation link: summary of changes & annotated specification documents*):

- The expansion of the CSV upload to include all forms
- The addition of a tolerance to cells (minimising the number of warnings)
- Changes to the exposure measures on form 600 (analysis of change)

If you require access to the MDC platform, you should contact the MDC devolved administrator within your agency. If you are having technical issues with the platform, then contact MDCSupport@lloyds.com. If you have queries about the LCR itself, please contact your MRC point of contact.

Submission Requirements

The deadline for LCR submission is 1pm on the date communicated to managing agents via their Oversight Manager. The full timetable and categorisation of Phase 1 to 4 syndicates is set out in market bulletin Y5292 and further detail is provided in the *guidance link: SCR 2021 YOA instructions*, which provides details of documentation required as part of the LCR submission.

Managing agents are advised to submit multiple documents via SecureStore, where documents are split into many files. Further details on how to access SecureStore are available via [Lloyds.com > tools-and-systems > secure-store](#).

The Capital Setting Process for the 2021 Year of Account

The ECA Member Modelling Software ('Member Modeller') will be made available to registered users from 20 August. The Member Modeller will then be updated in accordance with the capital business timetable, recognising SBF and LCR submissions, Capacity Auctions and Coming into Line (CIL) deadlines.

The key Member Modeller issue dates are set out in the table below:

20 August	Preliminary rolled-over data release
17 September	Updated for Phase 1 syndicates' SBF and LCR submissions
24 September	Updated for Phase 2 syndicates' SBF and LCR submissions
1 October	Updated for Phase 3 syndicates' SBF and LCR submissions
8 October	Updated for Phase 4 syndicates' SBF and LCR submissions
19 October	Pre-Auction release updated for all Phase 1 syndicates' approved ECA
30 October	Final date for updating Phase 2 and 3 syndicates' (incl all capitalised by LOC) approved ECA
12 November	Final date for updating Phase 4 syndicates' approved ECA
26 November	Final Member Modeller Release prior to CIL (30 November)

Data

Managing agents should ensure that all data submitted to Lloyd's is internally consistent, i.e. between various forms. Often, certain items are submitted on different bases, as they are produced by separate teams within a managing agency or under separate processes. Lloyd's naturally expects consistency and agents will be notified of any discrepancies discovered within their submissions. Examples include, but are not limited to:

- *Reinsurance Contract Boundary (RICB) impact on Technical Provisions (TPs) as submitted in the Quarterly Solvency Return (QSR) and the Supplementary Questionnaire section of the LCR.*
- *Premiums and outward reinsurance in the LCR and SBF.*

Adjustments

Reinsurance Contract Boundary Adjustments

All agents are required to model the RIBC within their internal model and report the required adjustment to the uSCR on form 309 of the LCR, which should match the SuppQ and be consistent with the Quarterly Solvency Return (QSR).

Economic Capital Uplift (ECU)

Lloyd's will continue to apply an uplift to the agreed capital requirements to derive ECAs at member level.

Exchange Rates

LCR submissions should be based on 2021 SBF exchange rates (set as at 30 June 2020 and detailed in Market Bulletin Y5298). Movement in exchange rates will be kept under review and Lloyd's will consult and advise of any proposed action due to material changes.

Inactive member capital loading

Users of the member modeller software are reminded that the 10% loading applied to inactive members (and members reducing underwriting by 50% or more) in the member capital tests is applied to the ECA, and as such is not reflected in the Member Modeller and must be added when considering total funding requirement for those members.

Member Modeller

The 20th August Member Modeller release will be based purely on a roll-forward of 2020 final business plans and rolled-forward reserves. It should, therefore, be treated as only broadly indicative of the impact of adding an extra year of account.

Use of the Member Modeller

All requirements and registration forms for prospective new users are set out in the *ECA Guidance manual*. Existing users will not need to do anything unless you are an agent that changes its name or authorising Director.

Access

Lloyd's carries out an annual review of all users of the Member Modeller. Members' agents and managing agents are asked to advise Lloyd's, via the MRC helpdesk, of staff that have left their organisation or no longer need to access the software due to a change in responsibilities.

The Member Modeller only includes members that have active open year participations in the relevant modelling year, so does not retain any details relating to members that no longer have the need to calculate a capital requirement.

As part of the Future at Lloyd's initiative we will be reviewing whether access to the Member Modeller might be expanded to other member advisers.

New Developments

The main change to the Member Modeller this year is the addition of a syndicate hub for members to view capital requirements and Capacity for syndicates on which they currently underwrite. Member capital will, hence, always be consistent with the syndicate information reported, removing the risk of any timing differences. It also removes the need for separate reporting and widens the access to this information to all relevant participating members. Initially this will not include Life syndicates, which will be added in the future, and can be provided to Members' agents on request. Other changes are minor improvements and internal administrative function improvements, to help MRC support the market more efficiently.

Members' Agent 'Publish' Requirement

All Members' agents will be required to publish their final member underwriting and capital requirements, and to electronically confirm that this is indeed the final CIL position.

Update following 31/12/2020

Syndicates are required to ensure that their business plan and uSCR, agreed for year-end CIL, are kept under continuous review. If the LCR moves by more than 10% due to changes in syndicate risk profile at any point they should contact their MRC point of contact as a resubmission may be required. Syndicates are asked to proactively engage with the Lloyd's team if they are likely to have material change to their capital position.

Following year-end, all syndicates are required to re-assess their capital based on: actual balance sheet technical provisions based on audited QSRs, business plan changes, risk profile changes and rates of exchange. Lloyd's expects syndicates to formally re-run their models to assess the movement. A submission to Lloyd's of the template recording the movement in capital is required on the 1st of March 2021. If this return indicates a material (approx.10%) movement in capital, a full capital submission is required by 1pm on the same day. Whilst recognising the 10% threshold, Lloyd's reserves the right to request a capital resubmission, for the mid-year coming-into-line exercise, where having regard to all relevant circumstances it deems it appropriate.

Training and Support

The ECA guidance manual provides information on the capital setting process.

An e-mail help mailbox will be in operation to deal with queries on the ECA process and software, and for other ECA related questions; please direct all queries to:

Lloyds-MRC-Help@lloyds.com

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