Legacy Reinsurance Instructions

Instructions for completing legacy reinsurance transactions and supporting documentation

June 2025

Contents

1 Definitions

The following list contains definitions relevant to legacy reinsurance transactions.

Term	Description
Amended Standard LCR	A receiving syndicate's standard LCR, but including the additional capital requirement, plus reserve and claims data, relating to the inclusion of a legacy RI transaction
Ceding Syndicate	A syndicate wishing to transfer legacy business exposures out of its portfolio.
Legacy reinsurance (RI) Transaction	The term 'transaction' refers to not only the formal Reinsurance to Close (RITC) deals, but also the other varying types of arrangement (e.g. Loss Portfolio Transfer (LPT), quota share, Adverse Development Cover (ADC) business transfers effected under part VII, etc)
Lloyd's Capital Return (LCR)	The standard Lloyd's Capital Return submitted or the year(s) of account excluding any legacy RI transaction activity
Lloyd's Standard Model (LSM)	The Lloyd's standard model is the tool used to set capital for new syndicates, which do not have an internal model. Guidance for this process and the template can be found here: Requirements for new entrants
Ongoing ceding LCR	The LCR the ceding syndicate would submit after a legacy RI business has been removed from the model. An estimated ongoing LCR is a provisional view of the ongoing LCR submitted to support the approval of a partial LCR
Partial LCR	A reduced version of the LCR provided by the ceding syndicate which captures the standalone risk for the business being ceded. The Partial LCR contains only the 'key data' required to assess the transaction both by Lloyd's and the receiving syndicate
Receiving Syndicate	A syndicate wishing to provide reinsurance (RI) for the legacy business exposures being offered by the ceding syndicate
Split RITC	Reinsurance to close where the closing syndicate year of account is split between two accepting syndicate years of account. This is subject to separate guidance and requires the approval of the Prudential Regulatory Authority (PRA)
Standard Lloyd's Capital Return (LCR)	The LCR submitted for the year(s) of account excluding any legacy RI transaction activity
TPs	Technical provisions
uSCR	Ultimate solvency capital requirement
YoA	Year of account

2 Contact Details

For legacy transaction queries please contact: legacyri@lloyds.com and copy in your Account Manager. Also please refer to the Lloyd's.com page to see if your question can be answered from the information already available: Legacy Reinsurance - Lloyd's

3 Purpose

This document provides instructions on the process for entering into legacy reinsurance transactions in the Lloyd's market and gives details of supporting documentation required by Lloyd's from ceding and receiving syndicates. It also outlines the Lloyd's oversight process, including the structure and timing of multi-disciplinary review, and requirements for approval of the transaction.

The first point of contact for syndicates considering a legacy reinsurance transaction is their Account Manager and the Lloyd's Legacy Manager – who will be able to advise further on requirements and the process if it has features which are not covered by this guidance.

These instructions should be considered in conjunction with the Principles for doing business at Lloyd's ("Principles"), which set out the fundamental expectations in relation to syndicate capabilities. Furthermore, this document should also be considered in conjunction with the Performance Management - Supplemental Requirements and Guidance, with Reserving Guidance, in particular the guidance around the Statements of Actuarial Opinions and the Capital Guidance, in particular the latest LCR instructions and guidance around model changes and validation., in particular the latest LCR instructions and guidance around model changes and validation.

4 General Principles

4.1 Risk mitigation

The following general principles apply and underpin this guidance document:

Any legacy reinsurance transaction moving reserves from one Lloyd's balance sheet to another and/or transferring the operational management of policies from one party to another potentially poses risk to the policyholder and/or the Lloyd's Central Fund. To mitigate these risks legacy reinsurance transactions where the receiving party is a Lloyd's syndicate must be approved by Lloyd's before execution of the contract. The pre-transaction review and approval process will be risk-based, reflecting the materiality of the transaction and its impact on the receiving syndicate's overall reserves.

If the legacy reinsurance transaction is approved by Lloyd's, the contract cannot be executed until the additional capital required to be held by the members on the receiving syndicate is lodged in Funds at Lloyd's (FAL). This means that receiving syndicates need to adjust their existing capital requirement to include the additional business.

It is Lloyd's expectation that, following transfer, receiving syndicate best estimate reserves are required to be at least as high as an independent SAO opinion on the ceded reserves – if this is available. Or, if this is not available then opening best estimate reserves are required to be at least as high as the ceding syndicate's best estimates.

4.2 Lloyd's overarching expectations of the market

Submission of data
To facilitate Lloyd's review of the transaction, ceding syndicates need to submit additional data to Lloyd's. They therefore need to ensure that any Non-Disclosure Agreement (NDA) signed with brokers and other advisors include the provision for all parties to engage with Lloyd's. Initial information needs to be submitted when a transaction is first planned or has been discussed at the ceding syndicate Board, to enable Lloyd's to triage pre-transaction reviews and determine the appropriate internal governance for approval based on quantum and any other relevant features of the transaction.

For more material transactions, the approval process will take more time – requiring early engagement from ceding syndicates to ensure that approval is granted in line with expectations for contract execution. Additional information is required when the preferred receiving syndicate has been established. For any transaction where a partial year of account is ceded, syndicates must also submit information about the account splits.

Due diligence process
Lloyd's expects receiving syndicates to follow a thorough due diligence process and have a comprehensive integration plan for any new business in place before the finalisation of the transaction, outlining any gaps in resourcing, capability and skills and how these will be closed in the transition period. These considerations should be in the context of Principles Based Oversight ("PBO") framework at Lloyd's, with explicit considerations of the impact the proposed transaction will have on expected maturity and assessed capability across relevant Principles. Lloyd's will review these plans and form a view regarding approval, together with an assessment of the reserving position, reasonableness of pricing assumptions and the onward reinsurance arrangements. Lloyd's will not in any way look to set the price of the transaction.

Capital requirement submissions

- **Receiving syndicates** need to quantify the additional capital required following the transaction. However, syndicates are unlikely to be able to model the new business fully in line with Solvency UK standards at that point in time. Syndicates therefore need to submit an LCR with a capital add-on to take the transaction into account, which needs review and agreement by Lloyd's. Given the uncertainty of any capital add-on/management adjustment in the LCR, Lloyd's requires the add-on to pass some minimum tests to gain comfort with the level of capital.
- **Ceding syndicates** can only release any capital benefit arising from the transaction after the deal has been signed and an updated LCR has been submitted and approved (in line with the Major Model Change (MMC)/ Quarterly Corridor Test (QCT) processes).

5 Lloyd's pre-transaction review process & governance

5.1 General Process

The Lloyd's legacy transaction oversight process includes a capability review across all relevant areas under Principles Based Oversight (PBO), triaged based on the size of the transaction, with output discussed at a multi-disciplinary Legacy Review Panel. Lloyd's will assess the risk posed by the transaction across all Principles, taking into account our current view of capability for the receiving syndicate across the PBO framework. Pre-transaction oversight takes a holistic approach and, through aligning with the PBO materiality measures already in place in the Oversight Framework, is guided by the materiality of the transaction both in absolute terms and relative to the receiving syndicate.

In taking a risk-based approach and aligning with PBO, Lloyd's can ensure early communication on expectations of the receiving syndicate. This will affect the amount of information required, oversight performed, deal timelines, and ultimate Lloyd's sign-off. Primarily, the depth of oversight will be determined by the size of the transferring reserves, on a net best estimate basis. Where a transaction moves the receiving syndicate's expected maturity, that syndicate will need to outline in their Legacy Transaction Plan how they will reach that new maturity level, (including an expected timeline). Each Principle could need additional information should the transaction increase the receiving syndicate's expected maturity by two levels on any one Principle. This approach enables Lloyd's to respond effectively to the unique risk features of each transaction, and to form a view on any potential capability concerns prior to the transaction.

Early communication of planned transactions will be critical to enable this process, both from ceding and receiving syndicates. A lack of early engagement may undermine Lloyd's ability to complete the necessary level of review and so delay transaction approval. This means a shift in mindset is required, with ceding syndicates needing to get in touch with Lloyd's with the requested information when first engaging with a broker.

5.2 Transaction Categorisation

Our approach to pre-transaction oversight will vary as follows:

- **Core Oversight:** Applies to all transactions.
- **Enhanced Oversight:** Applies to transactions that involve net best estimate reserves transferring over £150m or increase expected maturity by two levels on any Principle or represent a strategic shift for the receiving syndicate.
- **Material to Lloyd's:** Applies to transactions with over £500m net best estimate reserves, indicating a higher potential impact on the Central Fund.

Please note that transactions within a 12-month period into the same receiving syndicate will be accumulated and enhanced or targeted oversight may be required based on the aggregated transaction size.

Core Oversight requirements:

- **Data Requests:** Lloyd's will request data covering all relevant risk areas, including pricing assumptions, transferring asset allocations, and claims/consumer business data.
- **Self-Assessment:** Receiving syndicates must evaluate their capabilities under the Principles including the new business and potential increased maturity, focusing on any gaps and how they will be closed.
- **Legacy Transaction Plan:** This plan should outline integration, migration, and operational arrangements, addressing any capability gaps and how they will be closed.
- **Reserving Assumptions Review:** Lloyd's will review reserving assumptions for both ceding and receiving syndicates, with the level of review varying by transaction size.

Enhanced oversight for more material transactions may involve additional information requests or a focus on areas of reserving uncertainty or thematic issues. Syndicates may need to present to Lloyd's Business Opportunities Committee ("BOC") if the transaction has strategic implications, or if the proposed transaction causes the accumulation of all transactions during any one calendar year to be >£500m in net best estimate reserves. What additional information is required for enhanced reviews will be decided and communicated to the parties involved on a case-by-case basis.

For transactions considered material to Lloyd's, the ceding syndicate must provide an independent SAO opinion on the reserves to be ceded, and the receiving syndicate must present to the BOC on the strategic impacts.

The Legacy Review Panel will give a recommendation for approval or raise any concerns relating to the transaction to the Capital Planning Group (CPG). All transactions will continue to be approved by the CPG, including the capital requirement for the receiving syndicates. The BOC approval for material transactions is an additional requirement as the transaction is deemed to result in a material shift in the strategic direction for the receiving syndicate. Smaller transactions can be escalated to BOC if they are deemed to meet the criteria of a material shift in strategic direction.

6 Process Timeframes

6.1 Overview

Appendix one shows the general submission timeframes and expected Lloyd's deadlines.

6.2 Initial Notification Obligations

Notification to Lloyd's
Ceding syndicates are encouraged to notify Lloyd's of the intention to enter into a legacy transaction. This will allow the setting of an achievable timetable for completion of the transaction taking into account the additional oversight requirements. The latest Lloyd's should be notified of the transaction is when the brokers are engaged. Please send notifications and any requests for accelerated reviews to the legacyri@lloyds.com mailbox and copy in your account manager.

Approval Timelines:

- **Q1 QCT Process:** Notify by the first week in August for transactions completing in January/February.
- **Q3 QCT Process:** Notify by the second week in February for transactions completing in July.
- **Accelerated Transactions:** Can be moved to Q4 QCT and Mid-Year CIL processes with prior approval from Lloyd's. To achieve these timeframes the preferred bidder must be in place and both the receiving and ceding syndicate need to be ready to submit the requirements as outlined in sections 7 & 8 below.

6.3 Setting Contract Completion Dates

The completion date of the contract should only be set following confirmation by Lloyd's of the expected review period (transaction type dependent) and when the transaction is scheduled for CPG review. Additional time should also be included to allow the receiving syndicate to submit the additional FAL and for Lloyd's to then formally approve the transaction. If contract completion dates are set without consulting with Lloyd's, then Lloyd's will be under no obligation to complete the formal approval by that chosen date.

Once the completion date is agreed the additional documentation can be submitted in accordance with that deadline, the submission dates for each document are detailed in section 7 for ceding syndicates and section 8 for receiving syndicates.

6.4 Submission Timings

The ceding syndicate must submit a partial LCR, the relevant ceding syndicate data templates and the outwards reinsurance questionnaire at the beginning of the process (or phase one of the oversight process). This is ideally when the brokers are notified of a possible transaction. The ceding syndicate can only realise the benefit of a legacy reinsurance transaction in line with the timelines for the QCT process, as set out in section 5.5 of the Lloyd's Capital Guidance. Lloyd's will also only allow the benefit if the ceding syndicate either triggers a major model change and/or the capital impact (including any preceding changes) is above a 10% movement in the uSCR, as laid out in the guidance. However, if the ceding syndicate has spread member capital support there should be a resubmission of the ongoing LCR/ LSM to be included in the same deadline agreed with Lloyd's for the transaction completion. This prevents the misallocation of capital requirements to members following the removal of any prior year reserves from the original submission.

Please note that the turn-around times for QCT submissions are very short and not necessarily sufficient review times for major model changes (which have an 8 week turnaround timeframe) – hence syndicates should submit major model changes earlier than the submission dates set out in the latest Lloyd's LCR instructions. which generally account for a 3-week review timeframe. Please note that for a ceding syndicate to take the benefit of the reduced risk, the receiving syndicate must have submitted their capital add-on early in the process to allow sufficient time to approve the submission for the QCT deadlines.

Full details of additional documentation are provided in sections 7 and 8, with a general timeframe for submission of each document provided in Appendix two.

Typical Transaction Approval Timelines

- Q4 QCT Process: 1st week in November.
- Q1 QCT Process: 1st week in February.
- CIL Process: 1st week in April.
- Q3 QCT Process: Last week in July.

Example timeline for a typical Q1 QCT transaction approval
Please see Appendix three for an example of a typical Q1 QCT transaction timeline.

Final Deadline for a transaction
The final deadline for any transactions for the current year of account is the Q3 QCT deadline (as set out in section 5.5 of the Lloyd's Capital Guidance); i.e. the partial LCR, the LCR with the add-on from the receiving syndicate and all other documentation needs to be submitted by the Q3 QCT deadline. Any transactions beyond the notification period for the Q3 QCT will not be considered until the next modelling year of account submissions in September/October.

7 Ceding Syndicate Details

The requirements for a syndicate wishing to transfer legacy business are set out in this section, with general submission timelines set out in Appendix two.

7.1 Non-Lloyd's Transactions

In general, the Submission Requirements in this section only refer to transferring legacy business to another Lloyd's syndicate. For transfers outside of Lloyd's there are no additional requirements from a Lloyd's perspective – i.e. this can be allowed for in a syndicate's capital requirement in line with the standard LCR submission, QCT and major model change processes.

The exception to this is the outwards reinsurance questionnaire. This questionnaire must be completed by the ceding syndicate for all legacy transactions regardless of whether the anticipated legacy reinsurer(s) is a Lloyd's syndicate or a non-Lloyd's entity. If the ceding syndicate does not believe the questionnaire is appropriate for a particular transaction e.g. due to materiality, this should be discussed and agreed with the Lloyd's Outwards Reinsurance Team.

7.2 Submission Requirements

For transactions within Lloyd's the ceding syndicate is required to supply additional data to Lloyd's for review and sign-off of the transaction via the CPG, comprising of reserving, claims and customer outcomes data, as well as the outwards reinsurance questionnaire and a partial LCR covering the standalone business being ceded. Documents should be submitted via MDC when submitting the partial LCR, or via SecureShare (using the MRC Syndicate Capital Setting folder) at all other times. Each document is listed below and available to download from Lloyd's.com: Ceding syndicate documentation - Lloyd's The timing of document submission is split into two phases, outlined below.

Phase One - The documents below are to be provided at the point of the relevant ceding syndicate governance committee signing off the proposal to enter into the transaction:

Legacy Data Request (Ceding)
The ceding syndicate data request contains the information regarding the following key areas which are required to be submitted to Lloyd's for review: reserving, customer profile and claims information. The purpose of collecting this data is to enable Lloyd's to triage the level of pre-transaction review and ensure we can understand the impact on PBO materiality at the receiving syndicate for these critical areas.
For the avoidance of doubt, this template is required for all legacy transactions, including LPTs, ADCs, Split RITCs etc.

The reserving information requested is to be completed only for the classes of business in scope of the transaction and is required to be as at the valuation date of the information provided to potential bidders for the due diligence process. A summary of the information requested is as follows:

- Reserving classes of business and associated brief description.
- Gross, Reinsurance Recoveries and Net best estimate reserves by year of account and class of business.
- Gross and Net reserves by year of account and class of business as per the Signing Actuary. The reason this has "if applicable" as part of the instructions is that the valuation of the due diligence may not be the same as the latest SAO.
- Gross and Net management margin by class of business.
- Description of the key uncertainties within the reserves with reference to any explicit allowances for them within the best estimate reserve and/or the reserve margin.
- Overall number of eligible complainant policyholders, where claims responsibility is being transferred, split by product and territory for lead business only.
- For claims data (both LPT and RITC transactions) the ceding syndicate will be asked to provide the number of claims for which claims responsibility is being transferred, split by participant role class of business, reserves incurred/outstanding, delegated authority and impacted FCP binders and Loss funds.

Participant role refers to whether the Ceding Managing Agent is transferring Lead, Further Agreement Party, or Follow claims. This may have implications for potential exposure share, Lead obligations under Claims Lead Arrangements and obligation to Followers to keep updated including in respect of reserves, as well as resource considerations for the Receiving syndicate in order to service. Faster Claims Payments binders may impact the speed of payment and whether a loss fund amount is to be transferred to the Receiving Syndicate as part of the transaction. This information can be obtained from the Claims Reporting Suite, tool to which the Ceding Syndicate Claims and/or Operations team will be familiar and have access through the following link QlikView - AccessPoint.

The Ceding Syndicate will also be expected to provide any other detail regarding material Claims developments to be undertaken in readiness for this transaction or may result following it, e.g. resource, infrastructure, case reserving, etc.

Your account manager will advise you on the expected date of submission of this information to Lloyd's once they have been notified of your intention to perform a transaction. For further details on the expected timelines of a transaction please refer to Appendix Two.

Outwards Reinsurance Questionnaire
The ceding syndicate should complete the Outwards Reinsurance Oversight Questionnaire as early as possible and in line with the timelines in Appendix two. The purpose of the questionnaire is to help Lloyd's understand the financial materiality of the proposed outwards reinsurance legacy transaction, the structure of the reinsurance protection and the financial strength of the reinsurance counterparties.

The questionnaire is required for all legacy reinsurance transactions, including LPTs, ADCs, Retrospective Quota Shares, Split RITCs and should be completed regardless of whether the anticipated legacy reinsurer(s) is a Lloyd's syndicate or a non-Lloyd's entity.

The questionnaire features a number of questions which are designed to assess risk arising from:

- The legacy transaction itself.
- Any subject or inuring reinsurance that is covered by the legacy transaction.

The questions are designed to help Lloyd's assess the following risk considerations:

- Structure of the legacy transaction.
- Counterparty details.
- Confirmation of subject RI asset being transferred.
- Whether the legacy transaction will be designed to protect against reduced or non-recovery from subject or inuring reinsurance contracts.
- Details of significant aged debts.
- Detail on any current disputes and specific bad debt provisions.
- Risk transfer price analysis where related parties involved.

The ORI Questionnaire can be used to notify Lloyd's of specific subject or inuring reinsurance asset considerations in line with the requirements set out in the Treatment of Outwards Reinsurance considerations set out later in this section.

Phase Two – the documents listed below must be submitted once the transaction is in the data room stage:

Requirement to provide Lloyd's with an SAO on the ceded business
For any individual transaction greater than or equal to £500m of best estimate reserves a Statement of Actuarial Opinion (SAO) is required to be provided to Lloyd's by the ceding syndicate in respect of the portfolio of business in scope of the proposed transaction.

The scope of this SAO will be provided to the ceding managing agent once Lloyd's has been notified of the proposed transaction. Typical scope may include best estimate claims liabilities valuation, key uncertainties including quantification of and scenario analysis, and distribution of claims outcomes including range of reasonable best estimates.

Partial LCR submission
Ceding syndicates are required to submit a partial LCR via the Market Data Collection (MDC) platform for the standalone business being ceded in all circumstances, with one exception. The exception is where the RITC covers all years of account for a syndicate and the RITC takes place before the new modelling year of account – as the partial LCR would then be the same as the latest full LCR submission of the syndicate and is hence superfluous.

The partial LCR from a ceding syndicate contains the results of modelling the ceding business on a standalone basis and should exclude reinsurance that is not transferring to the receiving syndicate as part of the transaction. The ceding syndicate partial LCR should consist of the following forms and be submitted via MDC:

- Form 012 LCR Syndicate Type.
- Form 309 LCR Summary (minimum ultimate basis, SCR1 can match uSCR or zero if unavailable).
- Form 310 Balance Sheet Distributions (minimum is Mean value and 99.5th will calculate).
- Form 311 Claims Distributions (minimum is Mean, 99.5th & the 99.8th can be placeholder to pass validations & full table 2 completion).
- Form 312 Projected Solvency II Technical Provisions at Time Zero
- Form 313 Financial Information (minimum is FX rate and Ultimate Net Mean values in table 3)
- Form 500 Premium Risk excluding Catastrophe – Quantitative Inputs (only required if the transaction includes unexpired risk.
- Form 510 Reserve Risk - Quantitative Inputs.
- Form 530 Reinsurance - Quantitative Inputs (only required if reinsurance arrangements are transferring to the receiving syndicate).
- Plus, additional data on some of the other LCR forms required to pass errors (blocking submission) in the validations process in MDC.

The partial LCR data elements required are shown in a csv template which is available to download from the MDC LCR 'Help' section called "PartialLCR_CSV_Instructions_202X".

When creating a partial LCR return on MDC please ensure the hypothetical option is ticked on form 012 and link the return to the September submission date if submitting between August-December, the Q1 QCT submission deadline between January-February or the March submission date when submitting March-July.

The partial LCR must be reported in converted Sterling. Submissions made prior to February must use the published prior 30th June foreign exchange rates. Submissions made post February must use the 31 December rates.

The partial LCR submitted to Lloyd’s must be approved by the Board or an appropriately authorised committee, depending on the syndicate’s governance arrangements, and in line with the Governance, Risk Management and Reporting Principles (Principle 10) under the Principles. Please note that no analysis of change or validation is required to be submitted to Lloyd’s for the partial LCR submission.

Ceding syndicates are required to provide an e-mail confirmation to your capital point of contact that confirms you authorise Lloyd’s to discuss elements of your partial LCR with the receiving syndicate(s).

Risk Code Data Template for partial year of account transactions
For partial year of account transactions only (LPTs, split RITCs), the ceding syndicate must provide Lloyd’s with a split of the Lloyd’s risk codes between what is remaining in the syndicate and that being ceded. When providing details of the transaction, please indicate the following points to enable a template to be created based on the Lloyd’s view of the risk codes in the Lloyd’s model:

- List the years of account being ceded,
- Indicate if any prior syndicate RITC’s are included in the transaction or if it is purely the syndicates own risks being ceded.

Please contact your capital point of contact to arrange for the Lloyd’s model risk code data to be provided to you, which must be split between risk remaining within the syndicate and being ceded. This is based on Lloyd’s risk codes by year of account, split between currency USD/GBP level. Further detail will be supplied within the template when requested. Lloyd’s will then share the populated template via SecureShare, using the MRC Syndicate Capital Setting folder.

Lloyd’s will create a dummy syndicate with the ceded business and remove the ceded risk codes from the original syndicate(s) where appropriate. These ‘dummy syndicates’ enable the Lloyd’s internal model to allocate the correct risks to the correct syndicate and also ensures the correct level of diversification is modelled for both the ceding and receiving syndicate members.

7.3 Treatment of Outwards Reinsurance

Ceding syndicates must inform Lloyd’s whether any existing reinsurance will be transferred together with the legacy transaction and advise where the associated reinsurance credit risk sits in the event of failure or dispute of insuring reinsurance to the legacy contract. It is important that the legacy reinsurance contract itself is worded clearly on this point.

Where outwards reinsurance had already been purchased by the ceding syndicate and still protects the exposures being proposed for legacy transfer, it must be clearly agreed between the ceding and receiving syndicates whether the rights and protections of these existing contracts will transfer together with the legacy business exposures, or if other actions are planned, for example commutation of cover prior to transfer. Review of outwards reinsurance contract terms will need to be carried out to ensure that this is permissible by the reinsurance counterparties and formal notification / endorsements made where necessary.

It should be noted that legacy reinsurance transactions are outwards reinsurance arrangements for the ceding syndicate and, with the exception of RITCs for which there are specific reporting rules, they should be treated and reported as such in formal returns to Lloyd’s, such as the Quarterly Monitoring Report Part A (QMA). Depending on the timing these may also need to be reported in the ceding syndicates Syndicate Reinsurance Structure (SRS) return. Please contact your Lloyd’s ORI point of contact to discuss further as required.

The accepting syndicate is expected to perform reporting requirements to Lloyd's following the completion of the legacy transaction within various Lloyds's returns. This may impact the data you request from the ceding syndicate. Please consult the Lloyd's return instructions of the various returns for more information.

7.4 Ongoing LCRs, MMCs & Model Considerations

Syndicates ceding all open years of account
Syndicates planning to transfer all years of account at the balance sheet date to another Lloyd's syndicate and become dormant will need to submit a partial LCR (rolled-forward to the balance sheet date to allow for up-to-date reserves etc.), but do then not need to submit an LCR in the Q4 QCT capital setting process, if the receiving syndicate includes the ceded business in its LCR submission.

Syndicates ceding part of the business only
If the ceding syndicate expects the transaction to be completed in the ongoing year of account and this is reasonably certain, then the standard submission in September/October can be submitted excluding the business being ceded, as for any other outward reinsurance transactions. The submission should include a full major model change application if this has been triggered according to the syndicate's model change policy. The syndicate should also submit a partial LCR for the ceded business at this point.

However, if the ongoing LCR is agreed by CPG prior to the contract being signed, depending on the materiality of the reduction in uSCR, the CPG letter would contain either specific conditions to be adhered to or an adjustment (labelled as RITC Adjustment). Any adjustment would be for the benefit taken for the transaction (as reported by the ceding syndicate) and can be removed when the following elements are all in place:

- The capital add-on has been submitted by the receiving syndicate and agreed by CPG.
- The deal is finalised between the two syndicates.
- The FAL has been lodged by the receiving syndicate.
- Lloyd's Legacy team have confirmed the contract can be signed.
- The latest date all elements need to be in place is the first Thursday in November.

If the transaction is not reasonably certain before the submission in September/October and has hence not been included in the standard LCR submission, then the resubmission should be made in line with the QCT and major model change process. This means the ceding syndicate should resubmit if any of the following criteria are met:

- The movement in uSCR is under 10% (measured before impact of risk margin, foreign exchange and Reinsurance Contract Boundary (RICB)), but the ceding syndicate is classed as non-aligned (i.e. there are more than two members/capital providers that are not related to the managing agency and they participate on other syndicates). In this instance, please contact the MRC point of contact to discuss the level of supporting documentation required with the resubmission, or
- The transaction and any prior changes made cause a capital movement of greater than 10% (measured before impact of risk margin, foreign exchange and RICB).
- Otherwise, the current standard LCR will remain in place. Any resubmission must adhere to the Lloyd's Capital Guidance.

Resubmissions made in January should use the June foreign exchange rate and bridge from the Q4 QCT supplied LCRs (where appropriate). In the absence of an LCR resubmission post transaction, for prior year RITCs only, Lloyd's will amend the current ceding syndicate LCR data to reflect the movement in reserves only, the Economic Capital Assessment (ECA) will remain the same. This removes the risk of misallocation of the ECA to the closed years of account in the internal model and member modelling software.

Interaction with MMC process
All transactions must be considered alongside your model change policy and submitted in accordance with the latest guidance. Where a ceding syndicate does not take the credit for a transaction in the current modelling year or where non-aligned resubmissions have been made without an MMC submission, then the expectation would be for an MMC (if triggered) to be submitted by June for approval ahead of the next modelling year of account.

7.5 Transaction failure

Where a syndicate expected to become dormant and did not supply a full LCR, in the event of the transaction not completing ahead of the Q1 QCT process, then the ceding syndicate must be prepared to submit a full LCR at short notice.

If a ceding syndicate has submitted an LCR with the ceded business removed and the transaction fails, a full submission must be made ahead of the next QCT process. A temporary adjustment may be applied by Lloyd's to remove the impact of the transaction until the full LCR is resubmitted.

7.6 Interaction with Member FAL

The ECA requirements of members on ceding syndicates will not normally be updated until all of the following criteria has been met:

- The ceding syndicate ongoing LCR has been approved by CPG.
- The receiving syndicate member has lodged the additional FAL for the transaction.
- The contract has been signed for the transaction.

Any transactions accelerated in the Q4 QCT will have member level FAL releases blocked until the contract has been finalised.

8 Receiving Syndicate Details

Any legacy reinsurance transaction where the receiving party is a Lloyd's syndicate cannot be executed until Lloyd's have approved the transaction in line with the oversight process set out in Section 5 and the requirements set out in this section and the additional capital required by the members on the receiving syndicate is lodged in Funds at Lloyd's (FAL). As previously described, the approval process and oversight will be risk-based depending on the materiality of the transaction both in absolute terms and relative to the syndicate and market.

8.1 Non-Lloyd's Transactions

This guidance only applies to legacy business from a ceding Lloyd's syndicate to a receiving Lloyd's syndicate. Legacy transactions where the reinsuring party is outside of the Lloyd's Market are out of scope for these rules but will still require notification to Lloyd's outwards reinsurance department.

8.2 Submission Requirements

Once a syndicate has been identified as the preferred bidder in a transaction, they are required to submit the documents listed below in accordance with a timetable agreed with Lloyd's, but the general submission dates expected are provided in Appendix Two and the minimum requirement is for submission of documentation to be made at least 6 weeks prior to the expected transaction completion date.

Documents should be submitted via MDC when submitting the updated LCR, or via SecureShare (using the MRC Syndicate Capital Setting folder) at all other times. Each document is listed below with a brief description and all templates are available to download from Lloyds.com: Receiving syndicate documentation - Lloyd's

Legacy Transaction Plan
The Legacy Transaction Plan, in conjunction with the Legacy Data Request, contains the information that will allow the Legacy Review Panel to complete its review of the proposed transaction. It should be completed for every proposed legacy transaction and submitted along with the LCR submission.

At a high level the Legacy Transaction Plan will contain information required by the Lloyd's oversight teams to gain an insight into the proposed transaction and how it impacts the operational capacity and capability of the proposed receiving syndicate. Where the self-assessment identifies a gap between the current maturity of the syndicate's capability and the expected maturity required by the revised materiality, the receiving syndicate will provide a description of the plan to close this gap, with clear timelines, down to the sub-principle level as necessary.

In addition, the Legacy Transaction Plan will include a detailed operational plan for the transition, migration and integration of the subject business, including details of transitional services arrangements and sufficiently detailed KPIs and key milestones to allow Lloyd's to monitor and track performance and progress.

Where a syndicate is the proposed receiving syndicate for two or more legacy transactions that will be effected at the same time or within a short timeframe, then a single Legacy Transaction plan covering the cumulative impact of all transactions will be required.

Updated PBO Self-Assessment
In addition to answering the Lloyd's Principle specific queries within the Transaction Plan Requirements, the receiving syndicate will provide a description of the impact of the proposed transaction on the receiving syndicate's expected maturity against each of the impacted Principles. Where the impact results in an increase in expected maturity for a principle due to movement across a Principle's materiality threshold, Lloyd's requires the

inclusion of a Board approved maturity self-assessment based on the higher materiality. If there is no increase in materiality a revised attestation is not required and the attestation submitted as part of the annual market-wide process will stand.

Legacy Data Request (Receiving)
The legacy data request template must be completed for every transaction and submitted with the LCR submission. The template should be completed on the due diligence data basis and not as at the point of the LCR submission. Should any data items not be readily available for completion in the template please provide narrative with the submission for Lloyd's to assess.

The data requirements are:

- For **Reserving** consideration, the following data items are requested:
    - Reserving classes of business names (ceding and receiving) and brief description (receiving only).
    - Comparison of Gross and Net best estimate reserves by year of account and class of business between receiving and ceding.
    - Gross and Net due diligence reserves undiscounted and discounted (i.e. best estimate reserves plus and due diligence reserve margin added by receiving syndicate as part of claims evaluation process).
    - A reassessment of the Casualty Stress Test Franchise guideline evaluation to include the prospective transaction for the receiving syndicate.
    - Description of the key uncertainties and data quality concerns within the reserves with reference to any explicit allowances for them within the best estimate reserve and/or the due diligence margin.
- For **Pricing** considerations, the following data is requested:
    - Anticipated total profit from the transaction, split as:
        - Risk premium / discount value.
        - Assumed reserve deficiency / surplus vs cedant best estimate value.
        - Positive investment income assumptions value.
        - Estimated claims savings value.
        - Syndicate transaction expenses value.
        - Other efficiencies / other expenses.
    - Anticipated initial profit release amount and timing.
    - Transaction Pricing, split as:
        - Internal rate of return as %.
        - Return on equity as %.
        - Reserving expense assumption as %.
        - Investment return assumption as %.
    - Additional information on stress testing applied to the pricing calculation, board papers to be supplied where available.
- For **Investment** considerations, the following data is requested:
    - Breakdown of asset allocation for the assets being transferred, including %, value and total assets:
        - Investment manager detail.
        - Average credit rating of transferring assets.
        - Average duration of fixed income transferring assets.
        - Breakdown of currencies of transferring assets.
    - Any intended change to the strategic asset allocation (SAA) in the coming year.

Business Opportunities Committee (BOC) presentation
Where the transaction is in excess of >£500m net best estimate reserves or is deemed by Lloyd's to represent a *strategic shift in direction* for the syndicate, the syndicate will need to prepare materials and present to the BOC. Please note that a presentation might also be required if the accumulated value of the transactions over a 12-month period are deemed to represent a strategic shift in direction. Full details on the BOC presentation are included in section 8.10.

Requirement to provide Lloyd's with an SAO on the received business
For any individual transaction greater than or equal to £500m of best estimate reserves a Statement of Actuarial Opinion (SAO) is required to be provided to Lloyd's by the ceding syndicate in respect of the portfolio of business in scope of the proposed transaction.

However, Lloyd's may request an interim SAO from the receiving syndicate if it expects to take on £500m or more in net reserves from legacy transactions (e.g. RITC, LPT) within a 12-month period. The scope of the SAO will be set by Lloyd's on a case-by-case basis, so early engagement is strongly recommended.

Updated LCR Submission
Syndicates that are successful in negotiating the transaction are required to supply an updated LCR submission via MDC. Syndicates with an approved capital model must model the impact of the transaction and provide the resulting additional capital requirement in the form of a management adjustment to Lloyd's for assessment. The adjustment can be determined by running the additional business through the existing model – but potentially with some simplification, where detailed information is not available in time to carry out class parameterisations etc. If this is not possible, the adjustment can be derived in other simplified ways outside of the capital model. In any case syndicates should clearly allow for the uncertainty around the capital required given the lack of information. In the section below there are details of minimum tests Lloyd's will apply to the capital add-on.

In addition to the new capital add-on requirement included on form 309, syndicates should add the combined (transaction(s) plus original data) claims/reserves information on forms 311 & 312. The LCR should not have the hypothetical option ticked as it will be used to set capital.

The updated LCR must include the following:

- Form 309 - The additional capital requirement modelled must be entered into the management adjustment cell for both the ultimate and one-year SCRs.
- Form 311 – The additional claims data must be included in table 2 and table 1 where necessary.
- Form 312 – the additional technical provision data must be included.
- Form 313 – the additional exposure must be included in table 3.

The documentation accompanying the updated LCR is not expected to be as comprehensive as for a standard LCR submission, as the additional capital requirement is only in place temporarily. However, syndicates are required to submit the following in addition to the forms above (as attachments to the LCR or via SecureShare):

- A mock form 309 showing a comparison of post diversified risk types pre and post transaction (form 309 on MDC will only oA comparison of the total net reserves pre and post transaction vs the ceded partial LCR (can be based on form 312).
- A comparison of net reserves by year of account and class before and after the transaction. Additionally, information should be provided on the volatility and correlation assumptions used.
- Justification of the adequacy of the total additional capital requirement. This needs to include documentation around how the capital requirement has been calculated (methodology), any assumptions made, and simplifications carried out (e.g. proxy classes or temporary parameters used). In particular the syndicate should outline how the uncertainty around the transaction has been taken into account given that this is new business to the syndicate and data might not be available at this point.
- Independent validation – this should be proportionate but at the very least checks should be carried out that the calculation has worked as intended and is correct as well as validation of any material assumptions made, including potential alternatives. Validators should also sense check the adjustment and ensure it is in line with expectations.
- Information on the level of any outwards RI included, including the impact and a justification of the credit risk allowance.
- Justification of the operational risk allowance, in particular with regards to potential anti-selection risk, risks around the failure of the due diligence process and risk around staffing with regards to the new business. The submission should be clear around the arrangements in practice (e.g. if claims handling will be transferred to the receiving syndicate or stay with the ceding syndicate etc.).
- Justification of the market risk allowance. In particular, the syndicate should be clear if assets are transferred and what the investment strategy is.

If, in exceptional circumstance the minimum tests (set out in section 8.3) are not met, then justification must be provided for any failures for Lloyd's consideration.

8.3 Capital Considerations

Modelling considerations

When first making a capital submission to Lloyd's post signing a deal, whether the change constitutes a minor or major model change, there are some modelling aspects the syndicate should consider. Generally, legacy syndicates monitor the deals separately – which means that the new deal might be added as new classes of business. Syndicates should consider the principle of homogeneity and volume – classes should be large enough to ensure sufficient data and information is available to parameterise them but should be homogenous enough for the risks to behave similarly. Syndicates should ensure that splitting classes by deal does not result in correlations between classes being understated.

- Syndicates should provide details of the parameterisation of the classes that are new to the syndicate. If that relies on expert judgement, you should ensure detailed justification is provided for that expert judgement.
- Syndicates should provide details of the correlation assumptions between the new and existing classes, along with justification and validation of those assumptions.
- When reviewing the correlation assumptions between new and existing classes Lloyd's will pay particular attention to classes that write similar business. For example, a General Liability class from the new book of business vs a General Liability class in the existing book. Lloyd's will expect a high level of correlation between such classes, or very robust justification for why that isn't required.
- There should be an allowance for expenses, considered to the full run-off of the liabilities.

Moreover, given that the risk profile is in general less varied for legacy syndicates (given that capital is mainly driven by long-tailed casualty risks) syndicates should ensure that systemic drivers like latent claims and claims inflation are modelled appropriately.

Additionally, syndicates should consider any operational risks specific to legacy reinsurers, like e.g. the risk of failures in the due diligence process.

Minimum tests

Lloyd's will apply the following minimum tests with regards to the capital add-on. Please note that the minimum tests will be carried out for each transaction in turn.

The minimum tests are individually reviewed by Lloyd's and so if a receiving syndicate failed multiple tests, the expectation is that each test will be remedied or justified individually. However, a syndicate (or Lloyd's) should not duplicate loadings. For example, an operational risk loading being applied in line with the minimum operational risk test below will have an impact on the uSCR to net reserves ratio – which means that the loading can remedy two test failures.

Syndicates should increase their additional capital requirement in order for the minimum tests to pass. If that is not the case a loading might be applied by Lloyd's.

- Operational Risk: The minimum operational risk amount included in the receiving syndicate additional capital requirement should be more than 10% of the 'modelled' additional capital requirement value (post diversification). For example, if the additional capital requirement modelled for the ceded business is £45m, but operational risk only contributes £3m, then an additional op risk load of £1.2m is required (I.e. £45m - £3m then * 10% = operational risk of £4.2m). Then the additional capital requirement included in the LCR, as a management adjustment, is £46.2m added to the previous agreed uSCR for the syndicate. This will also be subject to a minimum absolute amount of £500k.
- Diversification Credit: The additional capital requirement provided for any transaction must be a minimum of 20% of the ceded syndicate calculated standalone uSCR as submitted in the partial LCR. This means Lloyd's will apply the following test:

  Total new SCR = max(SCR before transaction + 20% ceded standalone SCR, submitted SCR plus capital add-on).

  If the receiving syndicate's original uSCR is lower than the ceded uSCR then the threshold test reverses, so that the additional capital requirement provided for the transaction must be a minimum of 20% of the receiving syndicate uSCR (which would then be added to the ceding syndicate uSCR to establish the full uSCR requirement). This means Lloyd's will then apply the following test:

  Total new SCR = max(20% of SCR before transaction + ceded standalone SCR, submitted SCR plus capital add-on).

  This is just for the illustration of the threshold test the LCR submission would be based on the original syndicate uSCR plus the additional capital requirement modelled.

- For example, if the original syndicate uSCR is £100m and the additional standalone capital requirement for the ceded business is £50m – then the minimum required uSCR is £110m = 100+20%*50. However, if the reverse is true (i.e. the original uSCR is £50m and the additional standalone capital requirement is £100) then the minimum required uSCR is still £110m – and not £70m=50+20%*100.
- uSCR to net Reserves Ratio: The additional capital requirement as a percentage of ceded net reserves should be greater than 30%. The ceding syndicate net reserves for the purposes of Lloyd's review will be sourced from form 312 of the partial LCR of the ceding syndicate and calculated as:

  Ceded Net Reserves = Total Column H + Total Column I – Total Column J.
- Outwards Reinsurance Allowance: Where additional outwards reinsurance for the legacy transaction is to be purchased by the receiving syndicate to reduce the additional capital requirement, details of the reinsurance must be discussed and agreed in advance with the Lloyd's ORI team. The modelling is expected to include a minimum of 10% reduction of the reinsurance benefit to allow for concentration risk which must be evident in the calculation of the additional capital requirement.
- Contributions to Capital: Contributions from all risk types to the additional capital requirement should be positive.

Interaction with MMC process
The agreed capital add-on will stay in place until the receiving syndicate has submitted a major model change (and this has been approved), which is generally over the summer or in the next modelling year.

When planning the timing of the MMC submission, the agent should carefully consider how long it will take to understand, parameterise and fully validate the modelling of the legacy business and how this integrates with existing business within the internal model. The MMC should be made in accordance with the Model Change Guidance. Similarly, if no major model change is triggered according to the receiving syndicate's major model change policy, then the transaction should be included as a minor model change as part of the next regular submission. Failure to meet the timetable for integration of the legacy RI transaction into the internal model is likely to raise governance concerns, which may have an impact on Lloyd's appetite for the syndicate to enter further legacy RI transactions.

The timing of any major model changes should be agreed with the capital point of contact in advance, as Lloyd's is aiming to minimise the number of applications received from Legacy syndicates in any year.

Multi transaction modelling
If a second transaction is agreed, this should be submitted as if the first transaction has been included in the model, therefore allowing for diversification between transactions. When providing the documentation for review of a further transaction, the new transaction data should be reviewed individually to the original business (including the initial transaction), which will aid assessment of the transaction under review.

Once approved by CPG the capital add-on will then stay in place until the syndicate has submitted a major model change (and this has been approved).

Lloyd's Review
Lloyd's review will follow the process set out for general LCR reviews set out in the Capital Guidance. Given the relatively short timeframe the review will focus on the minimum tests and the justification of the additional capital requirement. The review will be limited to the syndicate capital team and, if necessary, the outwards reinsurance team – reserving tests of uncertainty will not be carried out and reviewed. The reviewer might ask clarifying questions throughout the review, although these will be kept to a minimum due to the short turnaround time. Results of the review will be presented to and discussed at the Actuarial Oversight Review Group (AORG). Any proposed loadings will be sent to the Capital team at the syndicate. Account Managers will also communicate potential loadings to the executive of the syndicate. . Given the relatively short timeframe the review will focus on the minimum tests and the justification of the additional capital requirement. The review will be limited to the syndicate capital team and, if necessary, the outwards reinsurance team – reserving tests of uncertainty will not be carried out and reviewed. The reviewer might ask clarifying questions throughout the review, although these will be kept to a minimum due to the short turnaround time. Results of the review will be presented to and discussed at the Actuarial Oversight Review Group (AORG). Any proposed loadings will be sent to the Capital team at the syndicate. Account Managers will also communicate potential loadings to the executive of the syndicate.

When communicating loads to syndicates, Lloyd's will advise the following:

- The amount of the loading to the ultimate and one-year SCRs.
- The area of the model or threshold test to which the loadings are applied.

- A description of the loading and how it has been derived unless it is a formulaic loading from a threshold test.

Loadings are of an indicative nature and are designed to address the uncertainty surrounding the capital numbers if certain questions cannot be resolved satisfactorily. Responses from syndicates will be reviewed before a recommendation is presented to the CPG.

A recommendation regarding the syndicate's capital will then be presented to CPG. The CPGs decision will be communicated by Account Managers verbally and followed up with a CPG approval letter shortly after the legacy review panel meeting. CPG decisions can be appealed; syndicates should contact their Account Managers regarding appeal procedures.

8.4 Reserving & Pricing Considerations

Day 1 Profit
As part of Lloyd's oversight on transactions there will be increased scrutiny on the quantum of day 1 profit.

The key areas of risk Lloyd's is trying to mitigate are as follows:

- Data used as part of the due diligence process to evaluate transactions is generally limited and so the view of reserves may be different once transaction has been fully onboarded.
- Full "in house" actuarial reserving review not undertaken on day 1.
- Transaction has not been subject to an independent Statement of Actuarial Opinion on day 1, which is part of the overall reserving oversight framework for all syndicates.

The best estimate reserves are required to be at least as high as an independent SAO opinion on the ceded reserves (as per section 7.2 of this document) this is required to be provided by the ceded syndicate for transaction greater than £500m. Where the transaction size means this is not available then opening best estimate reserves are required to be at least as high as the ceding syndicates best estimates reserves (i.e. reserves excluding ceding syndicate reserve margin).

In practice this means the following for you:

- A partial deferral of the releases (or profit) for the receiving syndicate until your next Statement of Actuarial Opinion (SAO). This is anticipated to be no greater than a period of 12 months.
- Sets a "floor" to the best estimate reserving but does not infringe on management margin.

If the receiving syndicate would like to release profit greater than the above scenarios would permit on day 1, Lloyd's may consider this under exceptional circumstances. The receiving syndicate needs to engage with Lloyd's and this will be determined on a case-by-case basis.

Pricing Capability
The Legacy Reinsurance Underwriting Profitability Principle has been designed to enable Lloyd's to assess pricing capability and governance for legacy reinsurance transactions. As such we will look to understand how each legacy transaction in the Lloyd's market is priced, allowing us to build up a picture of receiving syndicate capability over time. It is not Lloyd's intention to comment on or set price or in any way interfere with the commercial elements of the transaction and legacy market. However, we do want to ensure that prices are set with due consideration given to the risk features of the transaction and at an adequate level to effectively service the transferring reserves until these have fully run-off.

8.5 Treatment of Outwards Reinsurance

Please note that where the receiving syndicate is planning to purchase additional outwards reinsurance for the incoming business, the benefit can be taken into account for capital requirement, subject to approval by Lloyd's ORI team and the 'Outwards Reinsurance Allowance' reduction detailed below. Early engagement with the ORI team is essential in order that the risk transfer is understood; additional details of the proposed reinsurance may be required depending on the expected scale. The Lloyd's ORI team should also be notified of the intention regarding any in-force outwards reinsurance and whether this will transfer with the legacy transaction, and where the ultimate responsibility and reinsurance credit risk lies in the event of any inuring outwards reinsurance failure or dispute. Details relating to these considerations should be included in the relevant section of the Legacy Transaction Plan.

Existing Outwards Reinsurance
Where outwards reinsurance had already been purchased by the ceding syndicate and still protects the exposures being proposed for legacy transfer, it must be clear and agreed between the ceding and receiving

syndicates whether the rights and protections of these existing contracts will transfer together with the legacy business exposures, or if other actions are planned, for example commutation of cover prior to transfer. Review of outwards reinsurance contract terms will need to be carried out to ensure that this is permissible by the reinsurance counterparties and formal notification / endorsements made where necessary.

It is important that it is clear where the ultimate responsibilities and reinsurance credit risk lie in the event of any inuring outwards reinsurance failure or dispute, and this must be clearly worded in the legacy reinsurance contract.

For material transactions, specific aged debt profiles for the existing outwards reinsurance may be requested by the Lloyd's ORI team.

Lloyd's should also be notified of the intentions regarding the existing ORI as part of the legacy communications and the capital impacts incorporated (where appropriate) into the partial LCR supplied to Lloyd's.

Additional Outwards Reinsurance
Any additional (also referred to as 'onwards') ORI arrangements being considered for a legacy RI transaction by the receiving syndicate must be discussed and agreed in advance with the Lloyd's ORI team.

It should be noted that the general concentration risk guidance applies, e.g. a 10% reduction in the reinsurance benefit for concentration risk is applied where applicable. Please note the reduction applies to the transaction on a standalone basis, not to the whole portfolio of the syndicate.

Notification

- Receiving syndicates must engage with the Lloyd's ORI team at the earliest opportunity where they plan to buy additional reinsurance and take credit towards additional capital requirement.
- The additional ORI arrangement must meet the Lloyd's Supplemental Requirements and Guidelines.
- The receiving syndicate must have adequate procedures and controls to reflect the materiality of any inherited and any additional outwards reinsurance as per the Lloyd's Reinsurance Principles of Doing Business.
- There will be an expectation to provide details and proof of any stop loss / ADC / QS percentage benefit at the start of the review process (for an ADC though we would need the agent to be well advanced in that process, as there is less comfort on those contracts).
- Details relating to the additional outwards reinsurance should be included in the Legacy Transaction Plan. Where the magnitude of the additional outwards reinsurance and the proposed capital credit to be taken is deemed to be material, Lloyd's ORI team may request additional information from the receiving syndicate.

Ratings & Concentration Risk

- Receiving syndicates must provide details of the intended ORI reinsurer(s) and confirm that they at least hold a Financial Strength Rating (FSR) of A- or equivalent rating from a recognised credit assessment or rating institution. If the FSR is below A- the exposure must be 100% collateralised to at least the 1:200 estimated exposure. Even where collateral is applied, where relevant the 10% minimum concentration risk must still be allowed for in the modelling.
- There may be circumstances where additional collateral / funding is required to mitigate risks irrespective of the FSR of the reinsurer(s), for example, excessive financial dependency on reinsurance counterparties and / or concentration risk. These would be considered on a case-by-case basis by the ORI team as presented and as required by the Supplemental Requirement & Guidelines. It should be noted that if there is perceived to be a heightened potential for reinsurance risk, other actions may be taken in addition to ensure that the level of risk is managed / mitigated, and these are set out in the Supplemental Requirements & Guidelines.
- Syndicates should adequately allow for uncertainty in the modelling. This should provide Lloyd's with further comfort that the capital is appropriate as an interim capital setting solution.

The Legacy Reinsurance Contract Itself
It should be noted that, apart from RITCs, legacy reinsurance transactions are outwards reinsurance arrangements for the ceding syndicate and should be treated and reported as such in formal returns to Lloyd's, such as the Quarterly Monitoring Report Part A (QMA). Depending on the timing these may also need to be reported in the ceding syndicates Syndicate Reinsurance Structure (SRS) return. Please contact your Lloyd's ORI point of contact to discuss further.

As above, it is important that the legacy reinsurance contract is worded to clearly articulate where the ultimate responsibility and reinsurance credit risk lies in the event of any inuring outwards reinsurance failure or dispute.

8.6 Claims Management Considerations

Lloyd’s will look to ensure the managing agent handling the ongoing servicing of claims has the necessary capability to do so, both in terms of resource and expertise.

There are different considerations from a claims management perspective which contribute to approval, depending on whether the transaction is an LPT or an RITC. The Claims Management Principle is rated at managing agent, not syndicate, level.

For an LPT, where the claims management stays with the ceding syndicate, there is not a consideration of receiving managing agent capability as part of the pre-transaction review. Instead, this continues to be considered as part of the ceding managing agent capability assessment under the Claims Management Principle. Likewise, for an RITC, the claims move to the receiving syndicate managing agent in entirety and the ceding syndicate has no further responsibility for claims servicing. The oversight and positive outcomes under the Claims Management Principle, which will include effective servicing of those claims, will be considered under the receiving managing agent Claims Management Principle assessment and overall dimension rating.

Where the Claims Management Principle expected maturity will increase at the receiving managing agent if the transaction proceeds, the agent will be asked to advise their plan to meet that increase in expected maturity with success criteria and timelines. Any gaps or additional resource requirements should be considered and articulated as part of the Legacy Transaction Plan. Lloyd’s will be able to assess the impact of the claims moving across from the data request completed by the ceding syndicate.

If the receiving managing agent is rated below expected maturity at Claims Management Principle or sub-principle level and/or are subject to an intervention, this may determine whether Lloyd’s claims oversight team can recommend the transaction progresses to the Legacy Review Panel. Where it does progress, an updated remediation plan may be required to incorporate the new transaction.

8.7 Customer Oversight Considerations

The overarching requirement of the Customer Outcomes Principle is that managing agents should embed a culture and associated behaviours throughout their business to ensure that they consistently focus on good customer outcomes and that products provide fair value. This applies equally to both live and legacy business.

The primary materiality metric for the Customer Outcomes Principle is the volume of eligible complainants within the portfolio. On a half-yearly basis, all managing agents are required to complete a return to Lloyd’s detailing the number of eligible complainants per class of business and territory. This data is required in the same format for each proposed legacy transaction, so that Lloyd's may consider if the managing agent of the receiving syndicate has the necessary resources and capabilities to deliver good customer outcomes.

For any transactions involving a significant volume of eligible complainant business (i.e. such that it would move the managing agent of the receiving syndicate to a higher level of expected maturity) then Lloyd’s will request details of the oversight framework, systems, processes, and resources in place (or proposed enhancements) as well as integration planning.

8.8 Investment Risk Considerations

The Lloyd’s Investments Principle already considers capability to manage investment risk at individual syndicate level, including an understanding of investment strategy at the receiving syndicate. Any transfer of assets will be considered in the context of both the individual transaction and the wider capability/investment strategy of the receiving syndicate to ensure the ongoing servicing of both the transferred and existing liabilities without any heightened risk to policyholders.

In addition to this, investment income assumptions feeding into price will be considered at a high level to sense check that these are realistic in the current economic environment and with the split of assets known to be transferring as part of the transaction. This is not with a view to opining on price, but to assess reasonableness of assumptions and to enable Lloyd’s to query with the receiving syndicate any areas of concern / misalignment of view.

8.9 Other Risk Area Considerations

In addition to the specific oversight areas outlined, oversight teams from across the remaining Principle Based Oversight areas will review the transaction and feed into the Legacy Review Panel discussions. This would include Exposure Management, Liquidity, Operational Resilience, Governance and Risk Management and

Financial Crime. All these oversight areas will be reviewing the transaction in the context of the risk features for their area and their understanding of the existing capability of the receiving syndicate for the relevant Principle under the oversight framework.

8.10 Requirements for the Business Opportunity Committee (BOC)

Larger legacy reinsurance transactions to be viewed as akin to M&A and so strategic discussion at BOC is required to ensure Loyd's is comfortable. The Business Opportunities Committee requirements for live syndicate proposals include consideration of several areas relevant to larger legacy reinsurance transactions.

You will be invited to attend an hour's meeting in person with the Committee. Typically, this will allow 25 minutes for you to present your opportunity, 20 minutes for the Committee to raise questions and 15 minutes for a discussion on other aspects such as capital, ESG and culture.

There are scheduled meetings for the BOC to review your proposal. We will agree with you the meeting to be allocated to your application. This ensures we can review your proposal in a timely manner. You will need to provide the materials at least three full working days prior to the agreed meeting.

Below is proposed adapted topics for inclusion in the legacy syndicate submission / presentation:

- Narrative to set out the proposal, its unique selling points and how it benefits the Lloyd's market,
- Company strategy - a schematic overview of the portfolio transferring vs the existing reserve portfolio in the legacy syndicate; how this links to overarching strategy of syndicate / wider group,
- Group structure - wider group structure and details of any dependencies on group for financial or capital support,
- Financials - 3 year forecasted GAAP P&L for the transaction as well as capital impact,
- Pricing strategy - how this deal was priced, expected timing of profit emergence, wider pricing strategy and underwriting risk appetite,
- Outwards reinsurance strategy - both following the transaction and overall wider strategy,
- Risk appetite – consideration of exposure to material accumulations and risk mitigations,
- Historic performance - performance of prior legacy reinsurance transactions / wider syndicate performance,
- Risks and mitigations to future performance of proposed transaction,
- Corporate governance – governance structure and distribution of duties and responsibilities, decision-making committees,
- Capability of the syndicate in terms of people and resourcing.

8.11 Other Lloyd's Process Considerations

QCT process Implications
The LCR submission with the capital add-on will be subject to the same adjustments in the QCT process as for any other capital submission and will therefore be subject to adjustments to account for the change in FX rates and RICB (where appropriate).

Requirements for other capital related submissions to Lloyd's
Syndicates are required to submit the standard formula to Lloyd's in November. The standard formula submission should include any capital add-ons in place at that time – i.e. exposures should be included in the standard formula calculation and the standard formula should be in line with the LCR submission in September/October. Additionally, syndicates are required to submit the internal model outputs (IMO) returns to Lloyd's in March. Lloyd's advises syndicates to include the capital add-on for any legacy transactions as part of "other risks" in their IMO return.

8.12 Transaction failure

Should a transaction fail to complete then the receiving syndicate should immediately resubmit the LCR removing the additional transaction items.

8.13 Interaction with Member FAL

Following agreement of the additional capital requirement by Lloyd's, the syndicate will then be expected to hold sufficient member FAL to fund the full increase in the member ECA resulting from the transaction. The FAL increase must be funded prior to the transaction being signed, unless sufficient FAL surplus is already in place.

As an example, the calculation for a syndicate with an ECA of £300m with an additional capital requirement (incl. economic capital uplift) of £100m and a single corporate member with no additional diversification would be: If the member held FAL of £290m before the transaction (given that FAL funding can be as low as 90% of the ECA level), then the additional capital to be lodged would be £100m (as not QCT FAL funding will be applied to the additional requirement). However, if the member held FAL of £305m before the transaction, then only £95m of additional capital would need to be lodged.

The restrictions on tier 2 assets (letters of credit, bank guarantees) must also be considered in accordance with Market Bulletin Y5177. The additional capital requirement will then be subject to the normal central adjustments made by Lloyd's for the ongoing QCT and mid-year CIL processes (foreign exchange rates, change in risk margin, reserve margin and Reinsurance Contract Boundary (RICB), plus any other loadings and adjustments that may be required).

9 Split RITCs

Where syndicate years of account are ready to close, ordinarily at 36 months, Lloyd's expects that the managing agent of the closing syndicate will affect the reinsurance to close (RITC) with another single syndicate year of account. This will usually be a later year of account of the same syndicate (typically, the following year of account, often referred to as the 'natural successor year') or it may be effected into a year of account of another syndicate (so-called 'third party RITC').

In the 'Performance Management – Supplemental Requirements & Guidance' (link) Lloyd's has made clear that no RITC contract may be written by two or more syndicates ('split RITC') other than with Lloyd's consent (or where parallel syndicates are the reinsuring syndicates). In providing consent to split RITC Lloyd's recognises that there may be good reason why a managing agent wishes to split the closure of a syndicate year of account between two different syndicates. Reasons why syndicates may wish to enter into split RITC arrangements include because a syndicate may have exited a class of business and believes the run-off of the business would be better serviced by a third-party syndicate, or to provide finality on books in run-off or for capital efficiency reasons.

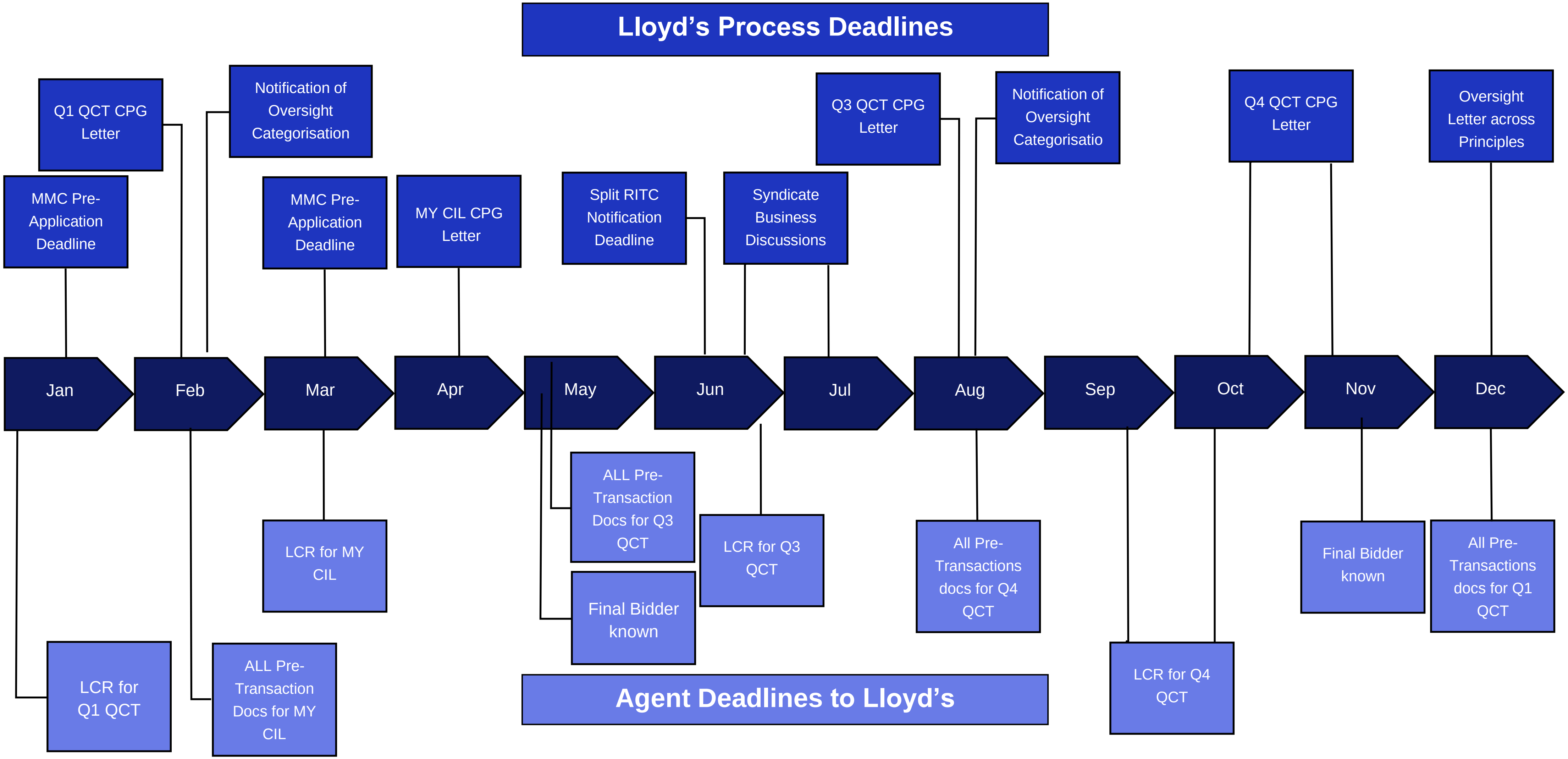
Lloyd's will consider any such application and co-ordinate with the PRA in accordance with the guidance and procedure set out in this full split RITC document (Legacy guidance - Lloyd's) In view of the definition of 'approved reinsurance to close' in the PRA Rulebook, RITC contracts to be written by more than one syndicate will additionally require an application to the PRA for a rule modification. Lloyd's and the PRA will independently consider any application for 'split RITC' (and any decision by Lloyd's to endorse an application does not imply agreement will also be given by the PRA.

10 New Legacy Reinsurance Syndicates

Any new syndicates providing legacy reinsurance for the first time will be expected to use the Lloyd's Standard Model (LSM). Any further points can be discussed with your capital point of contact.

Further information on new entrant processes is available via this link: Requirements for new entrants.

11 Appendix One – General process timetable



12 Appendix Two – Typical process dates & document submission indications

TYPICAL COMPLETION DATES	Q4 QCT (1)	Q1 QCT	MY CIL (1)	Q3 QCT
Notification of a transaction to Lloyd's for planning	July	August	January	February
Expected Sign off by CPG	Mid-October	Early-February	Early-April	Late-July

TRANSACTION TYPE	RITC	LPT	ADC				
Ceding Syndicate Templates Required				**SUBMISSION DEADLINES**			
Partial LCR submission	Y	Y	Y	August	September	March	March
Outwards Reinsurance Questionnaire	N	Y	Y	August	September	March	March
Data Request Template	Y	Y	Y	August	September	March	March
Statement of Actuarial Opinion (6)	Y(6)	Y(6)	Y(6)	September	October	March	April
Risk Code Template (2)	N	Y	Y	September	October	March	April
LCR Resubmission (3)	Y(3)	Y(3)	Y(3)	September	January	March	April
Major Model Change (5)	Y(5)	Y(5)	Y(5)	August	December	February	May

Receiving Syndicate Templates Required							
Transaction Plan	Y	Y	Y	September	December	March	May/June
Data Request Template	Y	Y	Y	September	December	March	May/June
LCR Resubmission	Y	Y	Y	September	January	March	May/June
BOC Presentation (4)	Y(4)	Y(4)	Y(4)	September	November/ December	March	May/June
Major Model Change (5)	Y(5)	Y(5)	Y(5)	June	Not applicable	February	May

NOTES

(1) Any submissions for these review periods must be agreed in advance to ensure adequate resource is available for this accelerated review. The MY CIL date will generally be restricted to resubmissions following a transaction approved in Q1 QCT.

(2) Only required for partial book transactions, for example all LPTs.

(3) Required if the ceding syndicate has spread member support or requires member level diversification accuracy or the uSCR movement post transaction exceeds 10%. Any other circumstance then the resubmission is expected in the next modelling year of account.

(4) Only required in certain circumstances

(5) if an MMC is triggered then the scheduling of the review should be agreed with your capital POC in advance of any submission (the table is purely illustrative). Generally, the MMC will be submitted in June to take effect in the next modelling year of account. An MMC will not generally be permissible ahead of the transaction being finalised, hence the 'not applicable' for the Q1 QCT process.

(6) Only required for transactions exceeding net best estimate reserves of £500m

13 Appendix Three - Example timeline for a Q1 QCT transaction approval:

- **August**
  - Notification: Ceding syndicates notify Lloyd's of proposed transactions.
- **October/November**
  - Partial LCR Submission: Ceding syndicates submit partial LCRs.
- **December/January**
  - MMC Submission (in early December): Ceding syndicate submits MMC (if necessary) and ongoing standard LCR to reflect the reduction.
  - Updated LCRs: Receiving syndicate(s) provide updated LCRs reflecting additional capital requirements.
  - Approval Process: 4 weeks required to approve the transaction.
- **January/February**
  - Funds Lodged: Funds can be lodged in FAL ahead of formal CPG approval (assuming no indication of CPG loadings provided) else Funds must be lodged in FAL post resubmission approval and ahead of the contract enactment.
- **February**
  - Resubmissions Approved: Ceding and receiving syndicate resubmissions are approved.
  - CPG Agreement Letters: New CPG agreement letters provided showing the agreed SCRs.
- **Mid-February**
  - Q1 QCT: Ceding and receiving syndicates go through Q1 QCT central adjustments based on Q4 rates and the Q4 QSR.
  - Member Capital Test Statements: Released reflecting Q1 QCT changes and FAL settlement requirements in March.
- **March/April**
  - Mid-Year CIL: Syndicate ECAs updated to reflect mid-year central adjustments based on Q4 rates and ASR data.
  - Member Capital Test Statements: Released reflecting mid-year CIL changes and FAL settlement requirements in June.
- **April**
  - Updated CPG Letters: Provided to all agents reflecting mid-year adjustments.
- **May**
  - Q2 QCT: Syndicate ECAs updated to reflect Q2 QCT central adjustments based on Q1 rates and Q1 QSR.
  - Member Capital Test Statements: Released reflecting Q2 QCT changes and asset settlements in June.
- **June**
  - MMC Application: Receiving syndicate submits MMC application (if required) to reflect acquired business fully in the model for the next modelling year of account. MMC will not impact SCRs approved in the current capital setting process.
- **July/August**
  - Q3 QCT: Syndicate ECAs updated to reflect Q3 QCT central adjustments based on Q2 rates and Q2 QSR.
  - Member Capital Test Statements: Released reflecting Q3 QCT changes and asset settlements in September. MMC values will not be included.