Lloyd’s Valuation of Liabilities Rules

For SAO valuations as at year-end 2020

Purpose and Scope

This document sets out Lloyd's requirements for the valuation of members' underwriting liabilities for the purposes of providing a Statement of Actuarial Opinion (SAO). Requirements of both Managing Agents and Signing Actuaries are outlined.

Any queries on the purpose or content of this document should be directed to the contact details below.

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1 Introduction

1.1 Overview

1.1.1 This document relates to the valuation of members' underwriting (general and life business) liabilities for purposes of providing Statements of Actuarial Opinion (SAOs) to Lloyd's. It sets out requirements of both Managing Agents and Signing Actuaries.

1.1.2 Within this document references to "technical provisions" relate to the modified UK GAAP basis (as outlined in detail in Section 4), on which SAO provisions are prepared.

1.1.3 All Managing Agents must, in respect of each syndicate under management, engage a Signing Actuary to provide a SAO on worldwide technical provisions, both gross and net of reinsurance and for each open year of account.

1.1.4 In addition, any syndicates authorised by the New York State Department of Financial Services/International Insurers' Department (IID) to write insurance in the US are required to engage a Signing Actuary to provide SAOs on the technical provisions for each open year of account, gross of reinsurance, relating to each of the Surplus Lines and Credit for Reinsurance Trust Funds.

1.1.5 The requirements for these opinions and underlying valuation methodologies are outlined in this document.

1.1.6 Sample opinion wordings are provided in the appendices. While it is expected that these will be used as a model, modifications may be necessary to suit particular cases including changes referred to in the UK Advisory Notes or the Lloyd's US Advisory Note, both issued by the Institute and Faculty of Actuaries (IFoA).

1.1.7 The SAO will need to be modified appropriately if there are run-off years of account.

1.2 Changes for the 2020 Year-End

1.2.1 For the 2020 year-end the valuation basis for the SAOs will remain the same as for the 2019 year-end work for general insurance business. We have included information on the treatment of loss funds.

1.2.2 As per prior year-ends, Signing Actuaries will be required to submit a template accompanying the Opinion for 2020 year-end. The template will now be available via the Market Data Collection ("MDC") system. The completed template should be uploaded by 17 February 2021, adhering to the naming convention: "2020YESAO_SYND". The opinion wording should include confirmation that the provisions on the certificate reconcile to those included in the template.

2 General Requirements

2.1 Basis of the Statement of Actuarial Opinion

Opinion Requirements

2.1.1 An opinion, in the form prescribed in the Appendices, is required for worldwide technical provisions and US Trust Funds for each open year of account.

2.1.2 The opinions must be provided on the basis that the technical provisions are no less than the best estimate of future liabilities calculated by applying generally accepted actuarial methods and using assumptions considered reasonable by the Signing Actuary.

2.1.3 The work of the Signing Actuary is required to be performed in accordance with UK Actuarial Guidance and Technical Actuarial Standards as issued by the IFoA and the Financial Reporting Council (FRC). Account should also be taken of relevant minimum standards information issued by Lloyd's, such as the Reserving Minimum Standards.

2.1.4 The Signing Actuary should obtain a peer review of the work carried out to form the opinion. The peer review, as required by APS X2, should include a review of the methodology and assumptions for key elements of the work by an appropriately qualified reviewer. It should be completed in a timescale which allows it to influence work before the results are finalised.

2.1.5 The actuarial opinion includes a section entitled "Relevant Comments" which allows the Signing Actuary to highlight material issues for the attention of Lloyd's. Such comments are intended to enhance the disclosures made in the opinion and do not constitute a qualification. Any matters which materially increase the degree of uncertainty underlying the opinion beyond that which would reasonably be expected, or which involve a material deviation from the accepted actuarial methodologies would normally justify a reference in this section.

2.1.6 The actuarial opinion covers the total of the technical provisions on the prescribed basis, but the actuary is not required to report separately on each component element. The actuarial opinion must take "liabilities" to include the need for the unearned premium provision. The treatment of this is covered in more detail in the Calculation of Technical Provisions section below.

2.1.7 The Signing Actuary should make it clear at the outset that she or he may require frequent access to underwriters and other members of the Managing Agent's staff. They may also wish to use work carried out by or for the Managing Agent, including other actuarial work undertaken by employees or consultants. Managing Agents should make all best endeavours to comply with this.

2.1.8 Where an actuarial opinion is based on a review of the Managing Agent's methodology rather than an independent calculation of the technical provisions, the report supporting the SAO should include an explanation of both the work performed by the Signing Actuary and details of the work performed by the other party. It is not sufficient to state that the Managing Agent's methodology has been reviewed without providing details of this methodology.

Unqualified Opinion

2.1.9 Where an unqualified actuarial opinion may not be available or if the "Relevant Comments" section of the opinion is likely to contain material issues, the Managing Agent concerned must report this to the Lloyd's Chief Actuary as soon as is practical.

2.1.10 The Lloyd's Chief Actuary, after consultation with the Signing Actuary, will determine the amended technical provisions for each reporting year of account for which an unqualified opinion is not available.

2.1.11 Any Managing Agent that is unable to secure an unqualified opinion on its technical provisions for a particular syndicate will normally be subject to significant additional review by Lloyd's.

2.2 Practising Certificates

General

2.2.1 Managing Agents must appoint a Signing Actuary, who is in possession of a relevant Practising Certificate issued by the IFoA, to provide each SAO and US Trust Fund opinion required; the responsibility of ensuring that the Signing Actuary appointed has relevant knowledge, qualifications and experience lies with the Managing Agent.

2.2.2 Lloyd's expects all Signing Actuaries to have a valid Practising Certificate for the duration of a year-end reserving exercise. Whilst there may be many interpretations of when exercises start or finish, for practical reasons, this means that no renewals are expected to be received by the IFoA during the period November to February inclusive.

2.2.3 For any Signing Actuaries for whom Practising Certificates currently renew within this period, Lloyd's recommends that in future renewal dates are amended to fall outside of this period. If this is an issue please contact the Practising Certificates team at the IFoA, or Lloyd's.

2.2.4 Note that only in exceptional circumstances would a new Practising Certificate be granted within the November to February period on an ongoing basis.

2.2.5 The implementation of the Chief Actuary Practising Certificate does not impact the requirement for holding a Lloyd's Syndicate Practising Certificate. Please refer to the IFoA website for further details.

2.2.6 Please inform Lloyd's (SAOReports@lloyds.com) of the intended Signing Actuary to be used this year-end including their contact details for Lloyd's information, by 30 November 2020.

2.2.7 If the same individual continues to sign the SAO for more than four consecutive years, Lloyd's will expect documentation that provides rationale supporting the Managing Agent's decision to be available on request.

2.3 Life Syndicates

2.3.1 Lloyd's requires that an appropriate Practising Certificate should be held to comply with the experience and knowledge requirements for Signing Actuaries. Historically, most Signing Actuaries providing opinions on life syndicates have tended to hold Life Practising Certificates. However, Lloyd's considers both Life and Lloyd's Syndicate Practising Certificate may be appropriate to satisfy the professional requirements for relevant skills and knowledge.

2.3.2 For life syndicates, Managing Agents can therefore appoint a Signing Actuary who holds one of the following Practising Certificates as issued by the IFoA:

- Practising Certificate to provide UK actuarial opinions for Lloyd's syndicates
- Life Actuary Practising Certificate.

2.4 Reporting Requirements

2.4.1 The SAO must be supplemented by a formal actuarial report addressed by the Signing Actuary to the Managing Agent. This must be distributed to Lloyd's and may also be distributed to the PRA and the US regulators. This is a formal report and must follow relevant UK Actuarial Guidance and comply with relevant FRC Technical Actuarial Standards.

2.4.2 The purpose of the report is to explain the work conducted by the Signing Actuary in order to reach the opinion on the technical provisions. It is expected that, in most situations, this work would include independent calculation of the technical provisions and comparison with those established by the Syndicate.

2.4.3 In other situations, the Signing Actuary's work may not include independent calculation of technical provisions, but rather constitute a review of the methodology and assumptions used by the Managing Agent in calculating the technical provisions. Please refer to paragraph 2.1.8 above.

2.4.4 An information template in support of the SAO will be required to be provided to Lloyd's at the same time as the worldwide opinion, the template required can be accessed via the MDC system by each Signing Actuary. Further details will be provided to signing actuaries and it is expected to be accessible in December 2020 for Year End 2020 reporting.

2.4.5 The template includes:

- The technical provisions reported in the opinions (for the worldwide and US Trust Funds)
- The margins between the Signing Actuary and booked reserves
- Exposure and methodology details for Periodical Payment Orders (PPOs)
- Signing Actuary and the Managing Agent's Best Estimate provisions, and movements in these
- Details of specific IBNRs greater than £1m included in reserves
- Ogden assumptions and reserves in respect of Ogden impacted claims
- Signing Actuary's current firm's estimated provisions for the last 8 underwriting years over the last 5 calendar years – the recent 4 calendar years are the minimum required to be included

2.4.6 Where the Signing Actuary is engaged to undertake a method and assumptions review the historical syndicate estimates should be included within the template in line with the requirements.

2.4.7 Lloyd's expects all Signing Actuaries to provide Lloyd's with all relevant information, documents and explanations, if requested. As part of Lloyd's oversight, Lloyd's may carry out additional investigations, including a walk-through of the Signing Actuary's reserving files / selection, and full cooperation is expected from Signing Actuaries in these situations.

2.5 Reporting for US Trust Funds

2.5.1 For the Trust Fund SAOs, the Signing Actuary is required to verify that the data presented by the Managing Agent in Schedule P of the annual return to the New York State Department of

Financial Services reconcile with the Trust Fund data used for the purpose of preparing the Trust Fund SAOs. Appropriate wording to confirm this is included in the specimen SAO in the appendix.

2.5.2 In certain circumstances, the paid or outstanding position initially reported by Lloyd's in the main US reporting packs may differ from the actual position of the syndicate; for example, where significant items have not been processed through Xchanging. If this is the case, then the Managing Agent should have already adjusted the main packs before returning to Lloyd's. The Signing Actuary should work to be consistent with the adjusted pack returned to Lloyd's; the Schedule P should also be consistent with the adjusted main pack.

2.5.3 If the timescale is such that the Signing Actuary is unable to see the final version of the schedule before they sign the SAOs, then they should obtain a draft of Schedule P prior to signing along with a confirmation from the Managing Agent that there will be no changes between the draft and final versions. In these circumstances, the appropriate paragraph in the SAO should be amended to:

"I have verified that the data contained in the final draft of Schedule P reconciles with the Trust Fund data used for the purpose of preparing this SAO [except for immaterial differences, possibly due to rounding/except for rounding differences]. [The Managing Agent] has confirmed that there was/will be no change to Schedule P before submission."

2.5.4 If the Managing Agent advises the Signing Actuary of any changes, then they will need to consider the effect on the calculations, and whether the SAOs need to be amended or re-issued.

2.6 Responsibilities of the Syndicate Auditor

2.6.1 The syndicate auditor is required to submit the audit report on the year-end QMA. The auditor will however be able to place reliance on the Signing Actuary's opinion, in accordance with the appropriate professional guidance.

2.6.2 Where no unqualified actuarial opinion is available, this may have implications for the Syndicate Auditor's report and accordingly, the Signing Actuary and the Syndicate Auditor will need to liaise closely and report to Lloyd's as soon as any difficulties are identified.

2.6.3 The syndicate auditor is required to audit the year-end QSR and review the mid-year QSR. The auditor will however be able to place reliance on the Signing Actuary's estimate of reserve margins and profit in unearned premium, in accordance with the appropriate professional guidance.

2.7 Links to Solvency II Items for Capital Setting

2.7.1 Lloyd's requires that all releases of earned "reserve margins" which might be claimed for capital setting in the Solvency II balance sheet (line 4 of the QSR 210) be no greater than that identified by the Signing Actuary in the SAO template (or a separate formal letter). The test is applied for each open year of account and the information in the SAO template is on this basis.

2.7.2 Additionally, Lloyd's requires the reporting of Unearned Incepted Ultimate Premium (line 19 QSR 210) and Unearned Incepted Ultimate Claims including ALAE and ULAE (line 20 QSR 210).

2.7.3 The total unearned incepted ultimate premium as reported in the SAO template should be considered as the ultimate equivalent to the entry for line 5 (QSR 210) which only contains the future portion. This should be a positive entry.

2.7.4 The total unearned incepted ultimate claims as reported in the SAO template should include ALAE and ULAE and bad debt provision and should be considered as exclusively the claims portion of line 8 (QSR 210) which reports all future costs (although we consider it is likely that this value will be equivalent to Line 8 QSR 210). This should be a negative entry.

2.7.5 2.7.3 and 2.7.4 (line 19 and 20 QSR210) will be used to derive the profit in unearned premium and the unearned incepted loss ratio.

2.7.6 When taking credit for the release of profit in the unearned premium provision (UPP) as part of the QSR210 this amount should be no more that the Signing Actuary has determined appropriate and included in the SAO template. The profit should be considered for each open year of account after taking into account claims in relation to the unearned premiums, any bad debt associated with reinsurance recoveries and any ULAE requirement on the provision.

2.7.7 At the end of June the same test will be used assuming the same profitability of unearned premiums as at year end but on an aggregate basis across all open years of account.

2.7.8 Consideration of any additional items affecting the level of margin not within scope of valuation for SAO purposes, such as events not in data (ENIDs), should be outlined explicitly in the SAO report. An allowance for bad debt is required in the SAO basis for all net items, any margin in the bad debt estimate should also be clearly stated.

2.7.9 The approach to assessing margins and any potential exceptions to this are outlined in full in the QSR instructions.

2.7.10 In all cases without appropriate additional information or sign-off from the Signing Actuary, Lloyd’s will disallow any excess claimed.

3 Data

3.1 Requirements

3.1.1 The Managing Agent must provide the Signing Actuary with appropriate assurance as to the accuracy and completeness of the data provided. The Signing Actuary should review data for reasonableness but may otherwise rely upon the Managing Agent in this respect.

3.1.2 The Signing Actuary must ensure that they understand the data and its limitations, test the data for general reasonableness and make any adjustments as appropriate. This should be clearly documented in the SAO report.

3.1.3 Should the data prove to be incomplete, inaccurate, unreliable, or not as required, the Signing Actuary must consider whether the use of such data may produce material biases in the results of the investigation and make appropriate allowances. If the data is so inadequate that it cannot be used to carry out the work necessary for the SAO, even on a very conservative basis, the Signing Actuary must decline to provide an SAO.

3.1.4 The Signing Actuary will need to amend the wording in reference to data in the specimen SAOs if they encounter anything during the course of the work that gives rise to any material concerns regarding the accuracy of the data which the Managing Agent is unable to resolve satisfactorily.

3.1.5 A specimen Data Accuracy Statement (DAS) is given in the appendix. If there are any material data discrepancies or anomalies that cannot be resolved with the Managing Agent, the Signing Actuary should discuss them with the auditor. In some circumstances, it may be necessary to modify the wording of the specimen DAS.

3.1.6 Lloyd's expects that the DAS is provided by either a nominee of the Managing Agent's Board or a director, who takes responsibility for it and has formally noted the sign-off. The provision of inaccurate, incomplete or misleading information to the Signing Actuary can lead to disciplinary proceedings against the Managing Agent.

4 Calculation of Technical Provisions

4.1 General Requirements

4.1.1 The technical provisions established by Managing Agents for SAOs will continue to be on a modified UK GAAP basis for year-end 2020, rather than a Solvency II basis. Provisions should be prepared in accordance with the Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008, with the following exceptions

- Discounting is only allowed in certain circumstances
- Any explicit loads applied to technical provisions (previously referred to as solvency loads)

4.1.2 Provisions calculated for the purpose of providing the SAO should be in accordance with the above and all relevant financial reporting standards (primarily FRS103).

4.1.3 For the purposes of determining the technical provisions for a year of account which has accepted a reinsurance to close (RITC), account must be taken of the liabilities associated with earlier underwriting years which have been reinsured into that reporting year. Therefore, the technical provisions for that reporting year of account will be the aggregate of all these underwriting years taken together, including the last underwriting year itself.

4.1.4 For any year of account being closed by RITC the technical provisions must be at least equal to the RITC premium (before any reduction made to this for any future premium cashflow).

4.1.5 The best estimate is intended to represent the mathematical expected value of the distribution of possible outcomes of the unpaid liabilities. This includes all reasonably foreseeable events based on syndicate exposures, though it is not necessary to allow for the emergence of new claim types as required as part of events not in data (ENID) consideration under Solvency II.

4.1.6 Provisions for future expenses, bad debts, unexpired risk and unearned premium less deferred acquisition costs all fall within the scope of the actuarial opinion. The calculation of these is covered in more detail below. Additional contingency margins are permitted but not required.

4.2 Gross Technical Provisions

4.2.1 The total gross technical provisions comprise outstanding claims (including reported and IBNR claims), unearned premium provisions less deferred acquisition costs (UPP less DAC) and unexpired risk provisions (URP). Lloyd's does not expect any agent to hold any other technical provisions; any agent intending to do so must contact the Lloyd's Chief Actuary as soon as possible.

4.2.2 Gross technical provisions relating to exposures before the balance sheet date must not be less than:

- the expected ultimate cost of settlement of all claims incurred in respect of events up to the balance sheet date, whether reported or not;
- associated loss adjustment expense;
- less amounts already paid;
- before taking reinsurers' share into account;
- with allowance for claim events that have occurred but have not yet been reported, using appropriate statistical or other techniques

4.2.3 The gross technical provisions must take account of inflation, currency exposure and other factors which may influence the final monetary cost of settlement. This includes any costs of borrowing that may arise because of the need to fund claims and other future receivables such as premium receipts or reinsurance/other recoveries. When assessing the cost of borrowing, prudent allowance may be made for cash calls planned but not actually made at the valuation date.

4.2.4 Future premiums must not be deducted when arriving at technical provisions. Where written premiums have not been received, the debtor will be included within amounts due from intermediaries and policyholders.

4.2.5 Credit may be taken for anticipated salvage and subrogation rights, net of any related bad debts. If an adjustment is required for GAAP reporting, this can be done in Column B of the balance sheet (QMA002). This is similar in effect to the treatment of DAC which is different between GAAP and SAO reporting. Lloyd's would expect any adjustments required for a UK GAAP presentation of the Profit and Loss (P&L) and Balance Sheet to have a net nil impact on profit/loss or to members' net balances.

4.2.6 In the case of Loss Funds, Lloyd's would expect the allowance within the Technical Provisions to be consistent with the accounting treatment used. The Syndicate Auditors will need to be satisfied with this treatment.

4.3 Expenses

4.3.1 For practical reasons, it should be assumed that the costs of handling gross claims and reinsurance recoveries are included in the gross provision for unallocated loss handling expenses (ULAE). ULAE must be calculated to ultimate.

4.3.2 Where it is reasonable and prudent to do so, the provision for future ULAE should be calculated on the practical assumption that each syndicate is a going concern. Otherwise, provision must be made on the basis that the syndicate has ceased or will cease trading, in whole or in part, as appropriate.

4.3.3 Under UK GAAP not all future syndicate costs need to be included in ULAE. For example, some elements of operating costs/professional fees can be held as creditors outside the technical provisions assuming the syndicate is a going concern. In this case, this element of expenses will not be included in the SAO as it is not included in the technical provisions. Some of these amounts can be held to offset against future investment income. The Syndicate Auditors will need to be satisfied with this treatment. This applies to both life and non-life syndicates, there is no longer a requirement for life syndicates to hold a specific run-off expense provision.

4.4 Unearned/Unexpired Exposures

4.4.1 An Unearned Premium Provision (UPP) must be established which represents that part of gross premiums written which relate to period of risk after the balance sheet date. Premiums are deemed to be earned over the period of cover under each policy having regard to the nature of the business written and the related spread of risk.

4.4.2 The UPP must be established within the overall provisions, at a minimum of 100% of the unearned premium after deduction of DAC.

4.4.3 Under UK GAAP, non-monetary items (such as UPP and DAC) are treated like monetary items and should be valued at year-end exchange rates. There is no adjustment (in line 16 of QMA 223) expected in respect of this. Paragraphs 117 to 123 of Financial Reporting Standard (FRS)

103 and associated supplementary guidance include more information on accounting treatment of these items.

4.4.4 Unless requested by the Managing Agent to carry out an independent assessment, the Signing Actuary may, subject to professional guidance, rely on the Managing Agent's assessment of the analysis between earned and unearned exposure as well as on the Managing Agent's assessment of DAC. In this case, the Signing Actuary should obtain a DAS that makes it clear that the agent has supplied and verified the UPP and DAC along with the other data.

4.4.5 If the Managing Agent's estimate of written premium is (prudently) lower than the Signing Actuary's but both use the same figure for earned premium, this leads to the Managing Agent's (prudent) UPP being lower than the Signing Actuary's. In this situation, a loading would technically be required. However, Lloyd's would be satisfied that the lower figure can be held if:

- the syndicate written premium estimate include a demonstrable element of prudence and the debtor for pipeline premium reflects this
- the Signing Actuary is satisfied that without the prudence factor the premium estimate would not be lower
- the Syndicate Auditor is satisfied with the treatment
- this approach is documented in the SAO report

4.4.6 Regardless of the unearned premium amount the level of profit recognised in this premium will be limited to the same proportion recognised in the signing actuary estimate (see Section 2.7).

4.4.7 There are some circumstances where a negative UPP could emerge. For example, a predominantly binder book of business that started writing business late in an underwriting year and has already purchased the outwards reinsurance programme could have a negative UPP. This is expected to be exceptional, and the Syndicate Auditor must be satisfied with the treatment.

4.4.8 An Unexpired Risk Provision (URP) must be provided where the expected value of claims and claims management expenses attributable to the unexpired period of policies in force at the balance sheet date exceeds the UPP in relation to such policies (after deduction of any DAC).

4.4.9 Where the syndicate is committed to contracts which arise on binding authority and lineslip business, and the underlying declaration has not attached as at 31 December 2020, provision must be made for any expected excess claims and claims handling expenses over future written premiums (after deduction of acquisition costs).

4.4.10 An assessment of whether an URP is necessary must be made for each grouping of business which is managed together, with any unexpired risk surpluses and deficits within the grouping being offset.

4.4.11 The Managing Agent should determine the meaning of “managed together” in conjunction with its auditor. Lloyd's will accept a definition of “managed together” as being at reporting year of account (i.e. at the level that the technical provisions are established) as the largest acceptable grouping. The Managing Agent may consider a smaller grouping of business to be more appropriate.

4.4.12 The potential requirement for an URP must be assessed on the basis of information available at the balance sheet date. Claims events occurring after the balance sheet date in relation to the unexpired period of policies in force at the time of writing must not therefore be taken into account unless they were foreseeable at the balance sheet date.

4.4.13 When estimating a potential requirement for an URP, expected investment income can normally be included for accounting purposes, subject to auditor approval. However, discounting is not permitted in the technical provisions for SAO purposes (outside of the circumstances detailed below). Therefore, the discounting included in the assessment of an URP will need to be unwound and added in as an explicit loading.

4.4.14 When taking credit for the release of profit in the UPP as part of the QSR210 this amount should be no more that the Signing Actuary has determined appropriate and included in the SAO template for each open year of account. The profit should be considered after taking into account claims in relation to the unearned premiums, any bad debt associated with reinsurance recoveries and any ULAE requirement on the provision.

4.4.15 At mid-year the release of profit in the UPP will be limited to the same proportion of the UPP at year-end aggregated for all open years of account. A greater release can be taken into account but will require a letter confirming this amount by the Signing Actuary.

4.5 Reinsurers' Share of Technical Provisions

4.5.1 The deduction in respect of reinsurers' share of technical provisions must be the monetary amounts which are expected to be recovered in relation to the total gross technical provisions. The appropriate method of deriving net of reinsurance technical provisions is by subtracting reinsurers' share from the gross technical provisions, any other method should be clearly justified in the SAO report.

4.5.2 The amounts deducted in respect of reinsurance recoverables must include any costs of borrowing necessary to cope with delays in reinsurance recoveries (see paragraph 4.2.3).

4.5.3 Since the technical provisions cover all relevant liabilities at the year-end, the Managing Agent must take account of the need to provide for the reinsurance premium costs in respect of these gross provisions. This includes additional reinsurance premiums in respect of the URP.

4.5.4 Where a syndicate is a going concern, a full provision for reinsurance costs must be included. This should be considered within the provision for outstanding claims including reported and IBNR claims and the URP as appropriate. The allocation of costs should follow each reporting year of account's share of earned premiums being protected by the future reinsurance irrespective of the year of account in which the relevant reinsurance premiums will be charged.

4.5.5 Care must be taken where a syndicate has contracts that provide protection over several years to ensure all future costs of reinsurance are properly allocated and that the technical provisions are not underestimated.

4.5.6 Where a multi-year reinsurance is entered into, the reinsurance premiums contracted for must be included in the reinsurers' share of unearned premiums. Where the syndicate is a going concern, the URP may take into account expected gross written premiums which the multi-year reinsurance contract is expected to cover.

4.5.7 Reinsurances must be assessed in accordance with the principles of Financial Reporting Standard 103. That is, if the contract is of the nature of an investment, it must be treated as an asset and valued at its net present value; alternatively, if it is a contract of reinsurance, it must be treated as such.

4.5.8 If the Signing Actuary projects a higher inwards loss than the agent does, and a higher inwards reinstatement premium, it depends on the accounting treatment of earned inwards reinstatement premiums as to whether she or he can net this off the higher loss. This may be recorded as an asset on the balance sheet and is thus not part of the Signing Actuary's scope. Auditors should discuss these figures with actuaries and should be aware of the Signing Actuary's assumptions regarding losses, so they should be able to check that the receivable reinstatements are consistent with the claims reserves held.

4.6 Bad Debt Provision

4.6.1 An appropriate provision must be made for potential reinsurance bad debts and the reinsurers' share of technical provisions must be stated after adjustment for these bad and doubtful debts.

4.6.2 Lloyd's security must be treated as 100% recoverable from a credit risk perspective. However, provision must be made within the reinsurers' share of claims, where considered appropriate, for reinsurance disputes between Lloyd's syndicates.

4.6.3 The IFoA advisory note on bad debt is not mandated and represents a prudent rather than a best estimate. Signing Actuaries should pay regard to them and provide justification for using different assumptions. If a Signing Actuary believes that there is prudence within the bad debt estimate, then the amount of prudence should be explicitly stated if it is to be used as margin for capital.

4.6.4 Technical provisions for reinsurance bad debt in respect of unearned business are only required to the extent that they may contribute to the syndicate requiring an URP. Calculation of the bad debt requirement for all business, both earned and unearned should be carried out in order that the Signing Actuary can assess whether or not a provision is necessary. However, allowance for the bad debt amount on unearned business should be taken into account when assessing the release of profit for the QSR210.

4.7 Currency

4.7.1 The technical provisions in respect of United States dollar, Canadian dollar, Euro and other settlement currencies (where material) must be calculated in these currencies in accordance with the rules stated above.

4.7.2 These must be converted into sterling at the rates of exchange prevailing at the close of business on the effective date of calculation. Recommended closing rates of exchange will be determined and notified to the Market soon after the valuation date.

4.8 Discounting

4.8.1 In general, there is prohibition on discounting technical provisions for the purpose of providing an SAO for general insurance business. There are however, three situations for which discounting may be permitted.

4.8.2 As set out in the implementation guidance to accompany FRS 103 sections IG2.14 to IG2.20 discounting benefit is permitted if the expected average settlement date of the claims being discounted is at least four years after the accounting date. Lloyd's allows this to be applied at the following levels

- Individual booked outstanding claims, such as prospective structured settlements, which are to be paid over extended periods of time and will normally be reported on a discounted basis

- books of business where the expected mean term of claims settlement is greater than 4 years

4.8.3 Discounting of claims is permitted for contracts (in any class) that contain an automatic commutation clause which includes discounting. The discount does not need to be unwound if the Managing Agent and the Signing Actuary are satisfied that the conditions underlying the clause have been satisfied.

4.8.4 Other than Accident and Sickness classes the credit for discounting does not need to be added back in respect of discounting of annuities in the technical provisions. This includes Periodical Payment Order (PPO) provisions, which are covered below in more detail.

4.8.5 In all cases, the Signing Actuary should apply judgement, and this may include unwinding some/all of the discount benefit, depending on the circumstances.

4.8.6 For long-term business discounting may be taken into account in accordance with FRS 103.

4.8.7 All elements of the technical provisions which have been discounted must be expressly stated and the workings for these must be included in the actuarial report supporting the opinion. There are particular requirements for the reporting of PPO claims which are detailed below.

4.9 Periodical Payment Orders

4.9.1 Periodical Payment Orders (PPOs) are regular indexed payments set up for the lifetime of the claimant. They are a form of annuity and therefore meet the required eligibility criteria for discounting for the purposes of providing an SAO. This discounting is subject to the conditions described below.

4.9.2 Courts enforce PPOs to cover heads of damage. In practice PPOs are most often applied to compensate claimants for the cost of future medical care and the amount in payment is potentially subject to variation arising out of future changes in the circumstances of the claimant e.g. changes in lifestyle or increased care needs.

4.9.3 Step changes in compensation, dependent on factors other than mortality, are considered to fall outside the scope of an ordinary annuity, and it is necessary to unwind the discount associated with this contingent element of the liability for the purposes of providing an SAO.

4.9.4 This stepped liability can be viewed as two whole life annuities; that which is already in payment at the valuation date for a known amount and a second commencing at a future point in time representing the additional PPO. The expected cashflows associated with the second annuity can be discounted while it is in payment but is not eligible for discount credit for the period between the effective date of the valuation and the assumed future date of commencement.

4.9.5 In light of the potential complexities, Lloyd's expects the Signing Actuary's report to:

- Explicitly mention PPOs if these claims feature in the book of business
- Summarise the number and size of current PPOs (both known and potential)
- Describe the approach adopted to estimate the reserves in respect of PPOs
- State any discounting benefit included in the estimates in respect of PPOs

4.10 Life Insurance Business

4.10.1 A syndicate with long term insurance liabilities must provide an opinion on the same basis as a syndicate with general insurance business; this includes the completion of the relevant QMA items, the basis of assessment (including consideration of FRS103), the opinion and the timing of submissions.

5 Appendices

Appendix 1	Sample Opinion Wordings for Council of Lloyd's / IID Opinions
Appendix 2	Sample Opinion Wordings for US Trust Fund Opinions
Appendix 3	Sample Data Accuracy Statement

Appendix 1

Opinion on Reserves

To: Council of Lloyd's / International Insurers Department

Statement of Actuarial Opinion – Syndicate KLM

Identification

I, ABC, am an actuary employed by XYZ [the Managing Agent.]

Or

I, ABC, am associated with the Firm of GHI Consulting Actuaries who have been retained by XYZ [the Managing Agent.]

Qualification

I am a Fellow of the [PQR Actuarial Society and an Affiliate of the] Institute and Faculty of Actuaries and possess a certificate valid as at the date of this Opinion to provide UK Actuarial Opinions for Lloyd's Syndicates, issued by the Institute and Faculty of Actuaries.

Scope

I have examined the technical provisions listed below for the underwriting years 1993 to [current year] of Syndicate KLM as at 31st December [current year], as reported in Form(s) QMA223 "Summary of Technical Provisions" submitted by the Managing Agent. I have reviewed the technical provisions shown in column A lines 7 and 17, for each relevant reporting year of account. My opinion is in respect of the adjusted technical provisions, which have been calculated in accordance with the Lloyd's Valuation of Liabilities Rules.

The technical provisions are the responsibility of the Managing Agent; my responsibility is to express an opinion on those provisions based on my review. I confirm the provisions included below reconcile with those included in the QMA 223 and the SAO template provided to Lloyd's.

Conv £000s	**[current year]**	**[current year -1]**	**[current year -2]**
Total gross technical provisions			
Total adjusted gross technical provisions			
Total adjusted net technical provisions			

NB: "Conv £" figures above are converted at [£1 = US$ a.aa = C$ b.bb = Euro c.cc]

[NB: The table may need to be amended if, for example, there are old open years of account]

The preceding technical provisions are for indemnity amounts and claims handling expenses (both allocated and unallocated) and include provision for future claims arising from unexpired periods of risk. They are net of salvage and subrogation, on past and current business. They are not discounted for the time value of money unless expressly allowed under Lloyd's Valuation of Liabilities Rules. The net technical provisions include a provision for reinsurance bad and doubtful debts, where appropriate.

I have relied upon data prepared by the responsible employees of the Managing Agent [including the Managing Agent's assessment of the analysis of written premium between earned and unearned exposure and the Managing Agent's assessment of deferred acquisition costs]. These data have not been checked by me, although the Managing Agent has confirmed that the data supplied to me are accurate and I have reviewed all key data for reasonableness. In other respects my examination included the use of such actuarial assumptions and methods and such tests of the calculations as I considered necessary.

[If the actuary did not carry out independent calculations for the purposes of providing the SAO, but rather reviewed the methods and assumptions used by the Managing Agent in determining the technical provisions, then wording similar to the following may be used (in place of the final sentence of the previous paragraph):

"In other respects my examination included such review of the methods and assumptions used and such tests of the calculations made as I considered necessary."]

[Relevant Comments

Other comments at the discretion of the Actuary

These additional comments do not constitute a qualification of my opinion.]

Variability

In evaluating whether the technical provisions make a reasonable provision for unpaid claims and claims expenses, it is necessary to project future premium, claim and claim handling expense payments. Actual future premiums, claims and claim handling expenses will not develop exactly as projected and may, in fact, vary significantly from the projections. Further, in most classes of business, the scope for adverse development exceeds the scope for favourable development. In particular, although I have made what I believe to be a reasonable allowance for the risk of adverse development, I have not anticipated the emergence of major new types of classes of claims, nor the emergence of any major new reinsurance disputes.

Opinion

In my opinion, subject to the above comments [and except for the qualifications stated below], the technical provisions identified above comply with the Lloyd's Valuation of Liabilities Rules and each is no less than the expected future cost of the corresponding claims and claims handling expenses for which Syndicate KLM was liable at 31st December [current year].

[Qualifications on Opinion

Other comments at the discretion of the Actuary]

An actuarial report, supporting the findings expressed in this statement of opinion, has been [will be] provided to the Managing Agent.

This statement of opinion is solely for the use of, and to be relied upon only by the following:

1. the Managing Agent, the syndicate auditors, the Council of Lloyd's and their auditors for the purpose of compliance with the Valuation of Liabilities Rules, and
2. the Managing Agent and International Insurers Department for the purposes of compliance with IID/NAIC regulatory requirements.

Signed:

Name:

Fellow of the [PQR Actuarial Society and Affiliate of the] Institute and Faculty of Actuaries

Date:

Address:

Appendix 2

Opinion on Trust Fund Reserves

To: New York Department of Financial Services**/International Insurers Department**

STATEMENT OF ACTUARIAL OPINION

GROSS RESERVES FOR SYNDICATE KLM

US CREDIT FOR REINSURANCE TRUST FUND/US SURPLUS LINES

TRUST FUND

AS AT 31ST DECEMBER [CURRENT YEAR]

Identification

I, ABC, am an actuary employed by XYZ [The Managing Agent].

Or

I, ABC, am associated with the Firm of GHI Consulting Actuaries who have been retained by XYZ [The Managing Agent.].

Qualification

I am a fellow of the [PQR Actuarial Society and an Affiliate of the] Institute and Faculty of Actuaries and possess a certificate valid as at the date of this Opinion to provide UK Actuarial Opinions for Lloyd's Syndicates, issued by the Institute and Faculty of Actuaries.

Scope

I have examined the reserves listed below for the underwriting years 1995 to [current year] of Syndicate KLM as at 31st December [current year], as reported in the [US Credit for Reinsurance Trust Fund]/ [US Surplus Lines Trust Fund] returns as at [insert date] relating to the business written under the Fund. I confirm the reserves listed below also reconcile with the SAO template that has been [will be] provided to Lloyd's.

The reserves are the responsibility of the Managing Agent; my responsibility is to express an opinion on those reserves based on my review.

US Credit for Reinsurance Trust Fund/US Surplus Lines Trust Fund			
US $000s	**[current year]**	**[current year -1]**	**[current year -2]**
Reported Outstanding Claims			
IBNR Claims and Unexpired Risks			
Sub-Total			
Less deferred premiums, Funds withheld and LOCs			
Total			

[NB: The table may need to be amended if, for example, there are old open years of account]

The preceding reserves are for indemnity amounts and allocated claims handling expenses, include provision for future claims arising from unexpired periods of risk and are gross of reinsurance. They are net of salvage and subrogation, and of anticipated future premiums (net of acquisition expenses) on past and current business. They are not discounted for the time value of money unless expressly allowed under Lloyd's Valuation of Liabilities Rules.

I have ensured that the reserve in respect of unexpired periods of risk is at least 100% of the estimated unearned premiums (net of acquisition expenses). In making a deduction for anticipated future premiums, I have estimated the bad debt reserve on that part of the future premiums that relate to "earned unsigned" premiums (net of acquisition expenses), subject to a minimum of 25% of the estimated earned unsigned premiums (net of acquisition expenses). In addition, I have not anticipated any profits on the earned unsigned premiums.

I have relied upon data prepared by the responsible employees of the Managing Agent.

These data have not been checked by me, although the Managing Agent has confirmed that the data supplied to me are accurate and I have reviewed all key data for reasonableness. In other respects my examination included the use of such actuarial assumptions and methods and such tests of the calculations, as I considered necessary.

[If the actuary did not carry out independent calculations for the purposes of providing the SAO, but rather reviewed the methods and assumptions used by the Managing Agent in determining the reserves, then wording similar to the following may be used (in place of the final sentence of the previous paragraph):

"In other respects my examination included such review of the methods and assumptions used and such tests of the calculations made as I considered necessary."]

I have verified that the data contained in Schedule P reconciles with the Trust Fund data used for the purpose of preparing this opinion [except for immaterial differences, possibly due to rounding/except for rounding differences].

[Additional Comments

Other comments at the discretion of the Actuary

These additional comments do not constitute a qualification of my opinion.]

Variability

In evaluating whether the reserves make a reasonable provision for unpaid claims and claims expenses, it is necessary to project future premium, claim and claim handling expense payments. Actual future premiums, claims and claim handling expenses will not develop exactly as projected and may, in fact, vary significantly from the projections. Further, in most classes of business, the scope for adverse development exceeds the scope for favourable development. In particular, although I have made what I believe to be a reasonable allowance for the risk of adverse development, I have not anticipated the emergence of major new types or classes of claims.

Opinion

In my opinion, subject to the above comments [and except for the qualifications stated below], the reserves identified above are no less than the expected future cost, calculated in accordance with the Modified UK Basis, as agreed with the New York Department of Financial Services, of the corresponding claims and allocated claims handling expenses net of anticipated future premiums, of the business written by Syndicate

[KLM] under the [US Credit for Reinsurance/US Surplus Lines] Trust Fund as at 31st December [current year] under the terms of the Syndicate policies and agreements.

[Qualifications on Opinion

Other comments at the discretion of the Actuary]

An actuarial report, supporting the findings expressed in this statement of opinion, has been [will be] provided to the Managing Agent.

This statement of opinion is solely for the use of, and to be relied upon only by, the Managing Agent, the syndicate auditors, the Council of Lloyd's, their auditors and the New York

Department of Financial Services /International Insurers Department for the purpose of compliance with New York Department of Financial Services /IID regulatory requirements.

Signed:

Name:

Fellow of the [PQR Actuarial Society and Affiliate of the] Institute and Faculty of Actuaries

Date:

Address:

Appendix 3

Data Accuracy Statement

I, [NAME, TITLE], hereby affirm that the listings and summaries of premium and claims data (including indemnity and expense amounts) regarding [SYNDICATE KLM] as at [VALUATION DATE] and other relevant data and information (including relevant details of apportionment of premium exposure between earned and unearned, deferred acquisition costs, reinsurance disputes and reinsurance bad debts) provided to [SIGNING ACTUARY NAME] of [SIGNING ACTUARY FIRM] were prepared under my direction and, to the best of my knowledge and belief, are accurate and complete [except where advised otherwise].

Signed:

Date: __________________