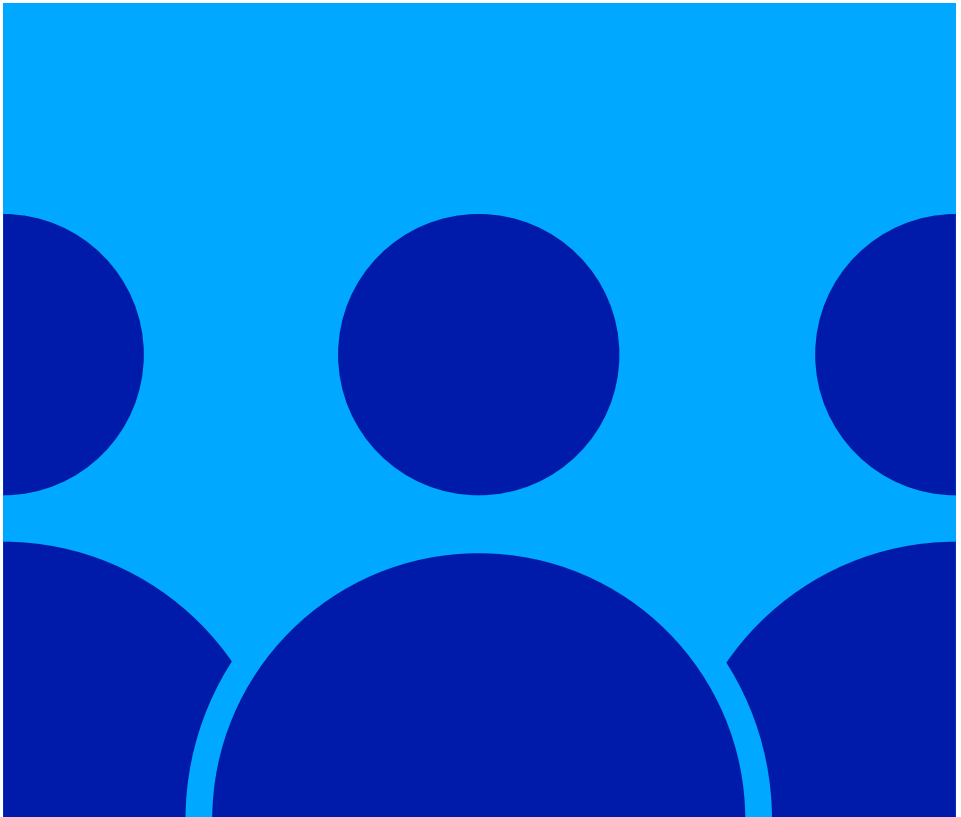


Establishing a Captive Syndicate at Lloyd's.

A guide for applicants.



This guide is for applicants that wish to establish a **Captive Syndicate to underwrite group business (first and related third party) at Lloyd's.**

Lloyd's is the world's leading insurance and reinsurance marketplace.

Contents

4	What is a Captive Syndicate?
5	Why establish a Captive Syndicate?
6	Lloyd's assessment criteria
7	The role of the managing agent
7	Fees and charges
8	Application process
16	Appendix 1
20	Appendix 2

What is a Captive Syndicate?

A Captive Syndicate is a type of Lloyd's syndicate set up by a group enterprise seeking to retain first or related third party risks:

- **First party:** An insurance policy where the claimant is the parent entity or group.
- **Related Third Party:** Products offered to a limited population affiliated with the group such as employees, customers, contractors or partnerships. These risks are either better understood by the group, or the group has some degree of control, risk mitigation or alignment of incentives.
- Third Party business is not permitted to be written into a Captive syndicate.

Why establish a Captive Syndicate?

- **Licensing access leads to potential cost efficiency**
All syndicates at Lloyd's, including Captive syndicates, can use Lloyd's international underwriting permissions, including the ability to underwrite direct insurance in 80 countries, and to use fronting partners where Lloyd's does not have insurance permissions. A Captive with a significant volume of business in multiple territories where Lloyd's has permission to underwrite insurance can find this a more cost-effective model.
- **Control and consistency**
The potential absence of fronting arrangements provides the Captive with the ability to set and control their own risk appetites, retentions and wording, with the support of their managing agent, and the oversight of Lloyd's.
- **Capital**
Captive syndicates share the financial strength rating of the Lloyd's market. This can result in lower collateral requirements where fronting arrangements are necessary.

Lloyd's assessment criteria

Lloyd's has established overarching criteria for the assessment of all new entrants; these criteria are provided for by the Underwriting Byelaw and are set out in full in the requirements made pursuant to the Underwriting Byelaw ([available on Lloyds.com](https://www.lloyds.com)).

More broadly, Lloyd's will also consider the extent to which the applicant's proposed business adds value to the Lloyd's market having regard to:

- the nature and robustness of the business plan of the syndicate;
- whether the applicant is a competent, proficient and capable organisation;
- whether the applicant is of appropriate reputation and standing;
- whether the applicant has adequate capital and financial resources;
- whether the applicant is able to meet Lloyd's Principles framework where applicable; and
- the applicant's support for 'Future at Lloyd's' and other market wide initiatives.

In order to help you formulate your proposition and obtain a better understanding of the typical costs associated with operating a syndicate at Lloyd's we have created the following templates:

[A. Lloyd's Standard Model \(LSM\)](#)

[B. Triage Quantitative Submission](#)

For more detailed information on the Capital Setting framework please see Appendix 1 of this document and the relevant section of the [Lloyd's website](#).

The role of the managing agent

All members of Lloyd's must underwrite insurance through an agent, known at Lloyd's as a managing agent. It is the managing agent that will employ the underwriters who will bind the contracts of insurance and reinsurance on behalf of the members of Lloyd's. Managing agents will also carry out all the other activities of insurance business at Lloyd's on behalf of the members. All Lloyd's managing agents are regulated in the UK by the PRA and FCA, as well as Lloyd's.

In the early stages of your application, we do not require you to have reached a final decision on which managing agent you intend to partner with. By the time your application has reached the stage where you are presenting to the Business Opportunities Committee, however, you will need to have identified who you will be working with and representatives of the managing agent will need to accompany you.

The managing agent will charge fees for the services they deliver (which may include finance, actuarial, claims etc), however the level of fees is a matter of commercial negotiation between you and the managing agent.

Fees and charges

- Lloyd's Captive syndicate application fee is £100,000 (VAT is not payable).
- The application fee invoice will be issued once the application has been recommended to the Council by the Business Opportunities Committee.
- Please note the application fee is non-refundable.
- Further information on charges payable by members to operate in the Lloyd's market can be found in the [Triage Quantitative Submission](#).
- We review our charges annually and every September we release a Market Bulletin confirming the charges for the following year.

Application process

An application has six steps.

Captive applications typically take 3 months from enquiry to permission to underwrite. Please note we may be unable to respond to new applications during Lloyd's annual business planning season from mid-August to mid-November.

All new Captive syndicate applications are handled in full confidentiality.



Application process

Step 1 Enquiry

Contact the Lloyd's New Entrants team

Please [contact the New Entrants team](#) to arrange an initial discussion.

The purpose of this initial discussion is to understand the principal features of the Captive proposal, and to discuss operating at Lloyd's and Lloyd's criteria for Captive applications.

We ask that you provide a summary of the proposition (maximum five slides) two full working days in advance of the initial discussion, outlining:

- Who you are, including your management team and relevant experience.
- What you do, including the opportunity, approximate gross written premiums for the first three years, classes of business to be underwritten by the Captive syndicate and the geographical split of the business.
- Why Lloyd's is right for you and how you believe you will contribute to the success of the Lloyd's market.

We will advise you of the outcome within two full working days of the initial discussion. In most cases this will either be;

- Progress to Triage (stage two); or
- Why Lloyd's might not be the right place for your proposition.

Application process

Step 2 Triage

Qualitative and Quantitative submission

The Triage Group comprises heads of business areas from the following Lloyd's teams: Syndicate Performance; Underwriting Performance; Exposure Management and Aggregation; Strategy and Market Development. The Triage Group members report to the members of the Business Opportunities Committee.

The role of the Triage Group is to review a more detailed summary of the proposal, alongside relevant financial information. We ask that you complete both the [Triage Qualitative and Quantitative Submission templates](#). If you have any questions about the templates please contact the New Entrants team.

There is a weekly standing meeting of the Triage Group to ensure we can review your proposal in a timely manner. You will need to provide the completed templates at least two full working days prior to the agreed Triage Group meeting to which we assign your proposal. Please note you do not attend the Triage Group meetings.

The Triage Group will review the submitted Qualitative and Quantitative templates and any other information provided and will confirm, within six working days, either:

- Progress to the Business Opportunities Committee (process stage three);
- A request for further information; or
- An explanation of why the Triage Group considers that your proposal does not meet the criteria for a new Captive syndicate.

Step 3 Business Opportunities Committee

Detailed plan presentation

The seven-member Business Opportunities Committee comprises Directors and Heads of Underwriting, Oversight, Exposure Management, Finance, Actuarial and Market Development.

You will be invited to attend an hour's meeting in person with the Committee. Typically, this will allow 40 minutes for you to present your opportunity and 20 minutes for the Committee to raise questions. Please note that if you are unable to attend in person then a virtual meeting can be arranged.

Your submission will consist of four parts:

- A. [The Quantitative submission - Business Plan & Governance.](#)
- B. A summary presentation to the Business Opportunities Committee consisting of no more than 20 pages.
- C. [3 Year GAAP P&L of the prospective business.](#)
- D. [A completed Lloyds Standard Model template.](#)

Please review the [Business Opportunities Committee Submission Guidance](#) which identifies the Qualitative information that we require in more detail.

There are scheduled meetings for the Business Opportunities Committee to review your new 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 information at least three full working days prior to the agreed meeting.

The outcome of the presentation will be either:

- Agreement to submit the application to Lloyd's Council with support of the Committee;
- A request further information; or
- An explanation as to why the Committee considers your proposal does not meet the criteria for a new Captive syndicate.

Step 4 Lloyd's Council

Our highest governing body grants 'in-principle' approval

If the Captive syndicate application is endorsed by the Business Opportunities Committee, the New Entrants team prepares a paper presentation for Lloyd's Council.

The paper, along with a short supporting slide deck (prepared by the applicant) is presented to the Lloyd's Council, usually by Lloyd's Chief of Markets.

The timing of the presentation to the Lloyd's Council will be determined by the next available scheduled Council meeting.

The outcome will be either:

- The Council grants 'in-principle' approval;
- The Council requests further information; or
- An explanation of why the Council considers that your proposal does not meet the criteria for a new Captive syndicate.

Please note that if you would like to start writing business from 1 January of the upcoming year of account, to allow for the time it may take to fully establish the Captive syndicate, you are encouraged to submit your application with sufficient time so it can be considered by Council before the end of July.

Step 5

Making it Happen

Deliver the operational and administrative aspects

Once the Captive syndicate application has 'in principle' approval from Lloyd's Council, we will work with you through a number of 'Making it Happen' actions.

The New Entrants team will set out and explain the actions required to obtain final approval (Permission to underwrite). These actions include:

- Agreeing the Captive syndicate Business Plan and the level of capital required.
- Securing capital and finalising the capital arrangements to support the Captive syndicate.
- Although not subject to a full review against the principles a Captive syndicate must demonstrate that it can adhere to the expected maturity of the key principles (including underwriting profitability, catastrophe exposure, pricing, outwards reinsurance, reserving, capital, investments and liquidity).
- Establishing any necessary licensing arrangements (e.g. the NAIC for US E&S or reinsurance business) and arrangements to underwrite via any other Lloyd's platform such as Lloyd's Brussels, Singapore etc.

- Setting up the Captive syndicate banking arrangements (Premium Trust Funds, situs trust funds).
- Obtaining agreement for establishing any new corporate member(s).
- Establish the necessary legal arrangements. This will include entering into a standard Manging Agents Agreement and the Captive syndicate Active Underwriter Secondment agreement.
- Agree any necessary arrangements to manage Lloyd's Central Fund exposure (see Appendix 1)

We anticipate that a Captive syndicate application will take approximately twelve weeks to navigate the Making it Happen stage. However, this timeframe excludes any material period in which we are waiting for responses to questions we raise and responses to requests for additional information.

[When all the Making it Happen actions are satisfactorily completed, your application will move to the final stage - Permission to underwrite.](#)

Step 6

Permission to underwrite

Final formal approval and launch

The Business Opportunities Committee has delegated authority to agree the final Permission to underwrite. The New Entrants team will prepare a submission to the Committee summarising the application and confirming that the requirements of the Making it Happen process have been successfully completed. This stage can usually be completed after circulation of a paper to members of the Committee, without the requirement for a meeting.

Unless a member of the Committee requests further information, agreement will be confirmed within two working days. In some cases, where there are Making it Happen actions that are not fully completed, these may be addressed by the addition of conditions to the Permission to underwrite.

A letter confirming Permission to underwrite will be provided via the New Entrants team. The Captive syndicate cannot commit to or bind any business until this letter is received.

Post Permission to underwrite

The Captive syndicate's performance is subject to quarterly review and annual assessment by the relevant Lloyd's technical teams. The managing agent will provide quarterly metrics on behalf of the Captive syndicate to validate it is performing in line with the agreed plan.

Appendix 1

Capital Setting and Lloyd's Standard Model

Calculating a Captive syndicate's Solvency Capital Requirement (SCR)

Although not subject to a full review against the Principles for doing business through the Making it Happen process a Captive syndicate needs to adhere to Principle 5 relating to capital – which means that it needs a Solvency II compliant internal model, which requires longer timeframes and significant resource to build. Therefore, the practice for new Captive syndicates is to set their capital using Lloyd's Standard Model (LSM) until they have had their internal model approved.

The Lloyd's Standard Model is a spreadsheet model which calculates the capital requirement for the Captive syndicate, which is structurally based on the Solvency II Standard Formula.

All syndicates are required to have applied for and been granted internal model approval within three years of account of underwriting – this can be extended in some circumstances, e.g. if the first year of account was a partial year. Syndicates cannot normally apply for internal model approval within less than one year of account.

[Click here for more information](#)

Lloyd's approach to setting the ultimate SCR for a new captive syndicate

Year 1 capital setting:

The LSM inputs include:

- The first year SBF set out by Lloyd's risk code. The net claims are used as exposures for the insurance risk calculation, but expected profit is also used as an offset in the capital calculation.
- A preliminary indication of the catastrophe risk within the proposed Captive syndicate's plan during the first year, based on the Realistic Disaster Scenarios exposures and any cat model simulations.
- Information about planned asset holdings.
- Information about planned outwards reinsurance with regards to credit risk exposures and risk mitigation.

Operational risk is considered by the Capital & Planning Group and where relevant added as a charge which depends on the age of the syndicates – so it is higher in the first year than subsequent years, with further risk charges for managing agents where there are any existing governance and risk management concerns. A standard adjustment will be made to the LSM for all captive syndicates such that the Operational risk will be set at a minimum of 22% of SCR to reflect the risks of anti-selection not seen in standard syndicates.

Mid-year start – part year business plan:

Where a Captive syndicate starts underwriting at Lloyd's part-way through a year of account ('mid-year start') Lloyd's will determine whether the premium needs to be annualised.

Factors affecting a Captive syndicate's first year SCR/Economic Capital Assessment

Fixed:

- Economic Capital Assessment uplift: All Captive syndicate SCRs are uplifted by a common factor to increase the SCR (at a BBB rating) to support Lloyd's current rating. At present the uplift is 35%:

Variable:

- Business mix: The SCR for a Captive syndicate's business plan that is focussed on a limited number of lines (classes) of business is less diverse and may result in a higher SCR;
- Volatility of business: A business plan focused on more volatile (e.g. catastrophe exposed) business in more volatile geographic locations may result in a higher SCR. Please note that this is also relevant for non-natural catastrophes like terrorism/war, cyber etc.;
- Loss ratio and profit expectations: The LSM uses the expected claims from the Captive syndicate, hence higher loss ratio and lower profit expectations will lead to a higher capital requirement.
- Risk Mitigation: Reinsurance arrangements like whole account stop losses will lower the capital requirement.
- Mid-year start: Projected part year premium may be a disproportionately low proportion of the annualised year 1 premium figure.

Years 2 and 3 capital setting:

You can model the second-and-third year SCR through the LSM, however, should the Captive Syndicate continue into a fourth year the managing agent will need to have developed an approved Solvency II model for capital setting purposes.

Exposure beyond ECA:

In order to limit exposure beyond ECA, the Captive syndicate may be required to put in place additional protection equal to the difference between the net total insured Value (net of outwards reinsurance) and ECA. This will form part of the discussion during the Detailed Plan Presentation to the Business Opportunities Committee.

For all Captive proposals net total insured value is quantified (i.e. no unlimited liability) in the Captive syndicate business plan as part of the expanded Captive syndicate considerations. This can include limiting indemnity to a set amount under the contract of insurance or through the provision of stop-loss reinsurance.

Exposure beyond ECA can be managed by in the following ways:

1. Restructuring the risk
Limiting the indemnity within the insurance contract to the value of ECA + reinsurance recoveries.
2. Fully collateralising the syndicate
When all exposure within the syndicate is collateralised, subject to Council approval, the New Member Central Fund uplift (currently 1.05%) will be waived.
3. Providing additional security
The difference between the net total insured value (net of outwards reinsurance) and ECA can be managed through the use of the following measures:
 - Parental / Group Guarantee.
 - Aggregate stop-loss reinsurance.
 - Letter of Credit

Subject to Council approval, the New Member Central Fund uplift (currently 1.05%) will be waived for captive syndicates with appropriate additional security that limits exposure to the Central Fund beyond ECA.

Appendix 2

Proportionate oversight for Captive syndicates

The pre-defined programme structure, their smaller scale and management of exposure beyond ECA, will limit the risk that Captive syndicates pose. This means Lloyd's can apply oversight and underwriting rules proportionate to the risk posed.

Flexibility in line size dispensations: Lloyd's will consider line sizes using a risk-based approach commensurate with their lower premium size.

Optimised reporting proportionate to risk: Captive syndicates will have approval to write to a clearly defined and managed programme structure, meaning that Lloyd's can take a more proportionate view of their reporting where GWP <£50m. Captive syndicates will still be required to provide key performance metrics from their syndicate board packs. This will allow Lloyd's to monitor performance without additional reporting requirements.

No unlimited liability: exposure to compulsory classes written and/or any unlimited liability must be managed (e.g., through unlimited stop-loss reinsurance or through limiting indemnity under the contract of insurance).

Supplementary controls for concentration risk: to manage potential concentration risk, Captive syndicates proposals are required to include gross and net exposure data by class.

No requirement for class underwriter: Where a syndicate writes First Party and Related Third Party risks no Class Underwriter is required.

Arm's length pricing: The Managing Agent must demonstrate that technical pricing is being followed at an arms-length basis (i.e. independent actuarial

analysis) from the parent. This will allow pricing adequacy to be achieved. Evidence of independent validation of pricing must be submitted to Lloyd's.

Checks on permanent establishment: If employees of the Captive's Group of companies (or other persons) that are involved with substantial elements of the policy contract/underwriting process, carry out their activities in certain territories, the applicant should take appropriate tax advice as to whether these circumstances create a Permanent Establishment in these territories. That advice should be submitted to Lloyd's. The territories consist of:

- Australia
- Belgium
- Canada
- Dominica
- France
- French Polynesia
- Hong Kong
- Israel
- Japan
- Malta
- New Zealand
- Singapore
- St Lucia
- St Vincent & The Grenadines
- United States of America

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We have written this document to provide you with some general information. You should refer to the relevant byelaws and Lloyd's formal requirements, where applicable. The information in this guidance is correct at the date of publishing, but it may change.

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