Syndicate in a box – ORSA guidance

Lloyd's expectations for SIAB ORSAs
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1 Purpose and scope

This document provides additional practical guidance to support syndicates in a box (SIAB) with the development of the first ORSA report.

Lloyd's recognises that SIAB would not need to develop a full ORSA report that is similar to what is expected by a 'full' syndicate. Instead, the ORSA report for SIAB should be reflective and proportionate to the business model and risks of the SIAB.

This guidance focuses on the key areas that form the ORSA report submitted to Lloyd's. These are the following:

- Board sign off and embedding
- Business strategy
- Risks
- Capital and solvency
- Stress and scenario testing

2 Board sign off and embedding

The ORSA report that is submitted to Lloyd's for a 'full' syndicate must be board approved. We do expect the same for the SIAB, as this is a requirement of Lloyd's Governance Minimum Standards (GOV 3.7) and the guidance for GOV 3.7 sets out Lloyd's expectations in more detail.

Having said that, Lloyd's recognises that the level of full board discussion, debate and challenge of the report will be less onerous and proportionate to the syndicate's risks. This is because Lloyd's requires that SIAB have limited exposure to Lloyd's peak perils and risks are shorter-tail.

3 Business strategy

SIAB will be restricted by what they can write. They should also aspire to become a full syndicate, but with limited exposure to Lloyd's peak perils. As a result, we would not expect anything more than a high-level summary of the syndicate's three-year forecast. The forward-looking quantitative information may include some granular data (class of business breakdown), covering expansion to new products or geographic areas only at a high-level basis. We expect this to be limited at this stage, given their smaller scale and the constraints on what business can be written.

Lloyd's does not expect managing agents to produce a detailed forecast of their SBF within the ORSA report – where possible, it would be helpful to include some quantitative information, such as breakdown by high level class of business, as well as the high-level assumptions underlying the plans.

4 Risks

The constraints on what business can be written, their smaller scale and the rules surrounding their underwriting permission, will limit the risks posed by SIAB.

As a result, the ORSA report should not include anything more detailed than a high-level summary of the current material risk exposures at syndicate level, with more emphasis on those key risk exposures approaching or outside risk appetite thresholds.

As there is no requirement for SIAB to develop an internal model in the early three years, there will be an option to use the Lloyd's benchmark model for the entire three years.

Lloyd's still expects that the ORSA report provide information on the current risk profile compared with the risk appetite statements and tolerance but recognises that it will not always possible for the report to include historical information.

The report should still comment at a high-level on specific mitigating controls or what actions should be taken where breaches of the risk appetite occur.

Managing agents should also ensure that the ORSA report also covers the prospective view of the risks facing the business, only if there is an expectation that these will materially change year on year.

In terms of emerging risks, Lloyd's expects that SIAB ORSA reports provide a high-level overview of the current emerging risks, most relevant to their own circumstances.

5 Capital and Solvency

Syndicates in a box will not be required to develop an internal model in the early years and there will be an option to use the Lloyd's benchmark model for the entire three years. Also, the 20% new entrant uplift is removed.

Managing agents should still include their 'own view' of economic capital in the ORSA report, but they will be permitted to use own performance experience for capital setting, if adequate historical track record provided. Where there is none, Lloyd's will use loss ratios based on market experience. As such, the requirement to justify the rationale for their own assessment will not be applicable to SIAB.

Lloyd's still expects that the ORSA report includes a high-level assessment of potential actions/contingency plans where available capital is likely to be insufficient to support a 'full' syndicate in the future.

6 Stress and Scenario Testing

Lloyd's expects the SIAB ORSA to include a limited range of stress tests derived from the strategy and key risks identified during the process.

Similarly, Lloyd's expects a limited level of reserve stress testing as part of the ORSA development. The ORSA report does only need to define at this stage what could constitute a business failure, and on a high-level basis the events that could drive such outcome.

Sensitivity tests do become redundant for the early years as there is no requirement for SIAB to develop an internal model.