

Lloyd's Capital Return 2021

FAQs

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By: MRC MI Team / MRC Syndicate Capital

Key Contacts

- If you have specific questions regarding the focus areas return, the supporting documentation for the LCR submission, capital guidance or the review process please contact your MRC Point of Contact copying SCRreturns@lloyds.com.
- Any issues related to the MDC portal should be directed to: mdcsupport@lloyds.com, copying kevin.barnes@lloyds.com

LCR SUBMISSION QUESTIONS:

- Q. If a syndicate had a Major Model Change Application since the last submission, then should the analysis of change cover the whole year or be from the MMC?**
- A.** The executive summary should cover the whole year, but the detailed workings can bridge from the MMC, as prior movements have already been approved.
- Q. What are the criteria for a syndicate to be on Fast Track?**
- A.** The fast track criteria have been laid out in the [Fast Track Pilot review process](#) document. Syndicates can determine themselves if they are part of Fast Track by applying the criteria before the submission. Lloyd's will communicate with each syndicate within 10 days of the LCR submission and inform them whether they will be part of the Fast Track approach or otherwise.
- Q. The validation signposting template contains questions that are not seem to be aligned with the focus area return?**
- A.** The validation template was based on an older version of the focus area return. An updated version has been uploaded – the structure of the template remains the same, but question 4.1.2 does not need to be completed and the wording of question 4.1.4 has been updated.
- Q. What is an appropriate interpretation of the updated SBF instructions on expected net outcomes? How will this be considered as part of the actual versus plan assessment?**
- A.** It is accepted that the update to the instructions is ambiguous. The update has been removed for 2021 planning to avoid unintended impacts so no change is expected this year. It is likely that an update with a similar intention will be added in next year's instructions but we will engage with the market beforehand to ensure the update is clear.

FOCUS AREA RETURN QUESTIONS – COVID 19:

- Q. What is the guidance with regards to model change in response to COVID-19 and what does Lloyd's look at in the SCR review?**
- A.** The [SCR instructions](#) cover the minimum requirements we expect syndicates to consider. As with other areas of syndicate modelling Lloyd's does not prescribe treatment but outlines expectations and minimum requirements. Lloyd's is leaving how the event is treated in the model to the judgement, processes and validation of each syndicate.

Q. The focus area return is a significant amount of additional work and our validators are looking at different version of backtesting. Can we fill in the focus area return on a different basis to that specified in the questions?

A. No. We ask syndicates to fill in the focus area return as much in line with the instructions as possible as we would like to understand the market level impacts on a consistent basis. We have endeavoured to ensure the testing basis represents the best balance of robustness and pragmatism. If a particular test results in disproportionate effort for completion please contact us to discuss. However note it will not be acceptable to take the position that backtesting on a one-year basis or similarly clear Solvency II requirements cannot be achieved. We will present market level summaries based on the information at our briefings next year.

Q. How will Lloyd's review and potentially load syndicates with regards to COVID-19?

A. Lloyd's is not prescribing how the COVID-19 should be modelled nor what return periods are acceptable. We have set out the minimum requirements in the SCR instructions and will review the responses for how clear and comprehensive the resulting model updates are. As with other areas of modelling, Lloyd's will propose loadings if the syndicate has not clearly understood and responded to the implications of recent/ongoing experience on their risk profile. Lloyd's will take a standard approach to loadings to address inadequate allowance for uncertainty rather than engaging on discussions on specific assumptions with syndicates. The approach will apply the most penal loadings to any syndicates that have not made appropriately logical or comprehensive consideration of the experience as this is a potential indicator that the model processes do not meet Solvency II tests and standards.

Q. What if we only have low COVID-19 exposure – do we still have to complete the full return?

A. No, you do not have to complete the full return. The return includes the triggers for completion in each section. If syndicates have not experienced material COVID-19 losses, then you are still expected to fill in the 2021 General Queries tab, the 2021 COVID-19 Backtesting tab (although one-year SCR backtesting results by class may not be required). On the 2021 COVID-19 queries tab question 1 only needs to be partially filled in and questions 2-5 and 10 can be answered as "no action taken" if this has been concluded to be appropriate. Lloyd's requires all syndicates to assess the impact of the economic outlook (question 6 and 7), secondary impacts (question 8), as well as assessing the possible maximum loss for COVID-19 (question 8).

Q. Is it acceptable to make no model change in response to COVID-19?

A. If a syndicate is clear that the experience has not indicated that any assumptions should be changed, then it is acceptable if it has been thought through and justified. The Lloyd's guidance signposts the wide-ranging impacts of COVID-19, e.g. impact on economic variables and asset values as well as insurance losses. All these areas should be unpicked with help of the focus area template. Syndicates should clearly articulate why, following a review of these impacts, no change is appropriate. The onus is on syndicates to demonstrate that an assumption of no impact is appropriate based on their exposure profile. It will not be assumed that no claims incurred necessarily indicates no impact given the syndicate risk profile, particularly with regard to impact on longer tailed lines and secondary impacts.

Q. The conditional format suggests that you expect a similar range of return periods to be explained for a total or specific pandemic distribution. It feels appropriate to differentiate between these different levels of testing

A. The conditional formatting is a high level indication of when further explanation would be useful. We accept that depending on the granularity of the testing it is appropriate for the experience to fall at different return periods.

- Q. In question 6 Lloyd's have made clear that the ESG is expected to be updated to the Q1 or Q2 version. This is a significant effort – does everyone have to do this?**
- A.** This is the expectation, with a key risk profile update being the drop in yield curves. If a syndicate can make the case that an older version of the ESG remains appropriate as e.g. the impact is immaterial and/or an allowance for the new yield curves has been made, then this could be acceptable. The most important outcome is that the syndicate shows the ESG version used is an appropriate representation of the current risk environment.
- Q. In question 9 what do you mean by “possible maximum loss”?**
- A.** The terminology has not been very clear as this is usually defined in terms of property insurance. We did not mean the “maximum foreseeable loss” (i.e. a sum of all sum insureds/exposure). The term “probable maximum loss” is more appropriate and has been amended in the latest version of the focus areas return. The aim here is for syndicates to conduct stress and scenario testing and derive a “worst case scenario” for their syndicate – i.e. the maximum loss that they reasonably expect to incur. As outlined in the instructions it is up to the syndicate to define appropriate circumstances for this scenario. There is no expected return period for this scenario, the focus of this question is for the syndicate to justify why the return period is appropriate for the scenario you defined.
- Q. In question 9 why do you only ask for the impact on premium risk and not reserve risk?**
- A.** This was an oversight on our part. This has been replaced by “insurance risk” in the latest version of the focus area return and insurance risk losses should be reported instead of premium risk losses only.
- Q. Question 10 on other impacts is open ended – what is the scope of this question?**
- A.** The question is designed as a catch-all for syndicates to give any more information that has not been covered in other questions. The “capital” referred to in the question relates to changes in the SCR.
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MARKET DATA COLLECTION (MDC):

Changes since the previous LCR template

- Substantial changes have been made to the LCR on MDC since the mid-year CIL process. Please refer to the document on the Lloyds.com page labelled Summary of Changes to see the list in isolation. Please note that 202X relates to the proposed year of account in this document.

Foreign Exchange (FX) Rate

- All submissions for the year-end Coming Into Line (CIL) exercise must be modelled at the June 2020 FX rate of USD1.24.

General

- Any GBP fields in the LCR are displayed in units and rounded to zero decimal places (a maximum of 5 decimal places (dcp) is permitted as an input for these fields in MDC).

Update: A tolerance interval of £100,000 has now been added to all tests which compare/reconcile between two inputs/calculations. This is designed to mitigate the risk of tests failing due to decimal places.

We still advise agents that while the MDC system accepts 5 dcp, it is still recommended to insert units with zero dcp to avoid complications.

- The dcp present in MDC can be checked by pressing F2 or double-clicking while on a cell. The decimals will then be displayed in the status bar.

Documents to Upload

- If a large number of attachments are being uploaded, please do this via SecureStore. See the Document Uploads section below (page 12) for full details.

Q. When will I be using MDC?

A. All LCR submissions must be made into the MDC platform.

Q. Why is my MDC account inactive?

A. The MDC platform makes user accounts inactive if there has been inactivity for 90 days. If this has occurred and access to MDC is required, please email mdcsupport@lloyds.com to reinstate the account.

Q. My colleague is having trouble logging into MDC and/or cannot see the MDC return, what should I do?

A. Please speak to the administrator at your syndicate, they can grant access to the LCR return. If you cannot access the MDC system, please contact MDC support: mdcsupport@lloyds.com

Q. How do I add in business classes that are not in the SBF?

A. The LCR will be linked to the relevant SBF and the business classes will be available for selection to populate the supplementary questionnaire whilst creating the LCR in MDC. Should you need to add further capital related classes of business that are not in the SBF, then this must be administered by your devolved MDC administrator prior to creating the LCR. The capital classes will then be available for selection upon set-up.

Q. How do I add in capital classes of business to the LCR reference table?

A. Please find below process of adding a new class of business via the data management section.

1. To perform this task, your devolved administrator must assign you the roles of:
 - reference data submitter
 - reference data approver
2. Navigate to the syndicate class of business reference table click on Data Management > Data Maintenance > Market Reference Data > Syndicate Class of Business.
3. Click on the edit option on the right top corner.
4. Right click on any row and click the option add a new row.
5. Enter syndicate number under entity, class of business code under class of business and class of business description under class of business name. The start and end date determine the validity of a class of business, so pick a long end date and it will remain available in MDC for future returns, pick a start date prior to the current date in order to see it in the system. For the start and end dates, please do not select the date from the calendar (known bug) but input on the line manually.
6. Right click on any row and click the option add another new row, follow the same process.
7. Click on Validate.
8. Click on Save.

Please note class mappings should be representative of your modelling and planning approaches. You can select your own coding, if it is clear what the class is to the reviewers.

Q. How are the classes of business selection, at the start of the return, mapped to the return datasets?

A. Below is the current mapping:

Selection at start of return (pre setup)	Which lists in MDC it affects
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500A	500, 501, 502, 503, 561
510A	510, 511
562 col A	562 col A - in LCR
562 col B	562 col B - in LCR

Q. How do I upload data via the MDC excel template?

A. Please find below the process for uploading data into MDC via the MDC Download to Edit function:

1. Create a new 'Manual' return in MDC.
Note: the classes of business selected at the start of the return will not be able to be changed once data in excel has been uploaded.
2. Navigate the Download option. Action > Download > Download to Edit.
3. Populate the template with the datasets from your internal systems.
Note: if copying and pasting from another excel workbook, please ensure values are unformatted (any formatting or decimals are likely to lead to an upload fail (this is a known platform wide issue which is currently under review). If the upload fails, please ensure F2 is clicked and then Enter pressed on all affected cells. If the upload fail persists, then try entering data manually (for affected forms) or revert to a CSV upload.
4. Select the Return in MDC.
5. Navigate the Upload option. Action > Upload

Note: Once an excel template has been uploaded into MDC it is no longer available for editing and reuploading into MDC. You must either edit within MDC directly or 'download to Excel for Edit' a second time and then edit that second version.

Troubleshooting a failed attempt at uploading data via the MDC excel template:

- Links have been inserted into the file (these must be removed).
- The file has been unlocked (will be void and template will need to be downloaded again).
- Decimal places in the data greater than 4 dcp (the template will display no dcp, but if you pasted the data or linked it from a source that had more than 4 dcp, then they persist, despite the template not showing them – paste, unformatted, to a blank workbook to check / amend / paste back in).
- Make sure no Text fields are greater than 1000 characters (including spaces).
- If any data has been edited in MDC after the original download of the MDC excel template, then a new MDC excel template will need to be downloaded, and the process restarted.

Q. How do I upload data via the CSV template?

A. Please find below the process for uploading data into MDC via the CSV upload function:

1. Download the proposed year CSV template from the MDC Help section: [Returns -> LCR -> 202X Underwriting Year -> Help -> LCR Specification and Form Template -> LCR CSV 202X Template](#)
2. Insert the syndicate number into the top row (cell D1).
3. Input data into column B and reference data into columns C and D, and save file (for specific instructions on how to fill in the template, please refer to the CSV Instructions document in the MDC Help section: [Returns -> LCR -> 202X Underwriting Year -> Help -> LCR Specification and Form Template -> LCR CSV 202X Template](#)).
4. Create a new return in MDC:
 - i. Click on the 'Returns' button.
 - ii. Select 202X Underwriting Year.
 - iii. Click the 'UPLOAD CSV' box.
 - iv. Enter a Version Name, then Browse for the CSV file in a directory.
 - v. Click Upload.
 - vi. Address errors (if any) via the Error Report download, then re-upload CSV file.

- Q. Can I upload macro enabled documents to the MDC platform?**
A. This function is not available in the MDC platform. Please ensure all excel documents are macro-free.
- Q. Why is some information not visible when I scroll in the internet browser?**
A. This can be mitigated by only using specific internet browser applications, such as Internet Explorer application. Please avoid using MS Edge.
- Q. Why do I get an error when I copy and paste cells within the MDC platform?**
A. This can be mitigated by copying and pasting cells of the same shape. For example, one cell cannot be pasted over several cells, like in other applications.
- Q. Why can I not see some text that has been inputted in the MDC platform?**
A. Some of the free text cell inputs in MDC do not have a wrapped format. Therefore, to see all text, it is useful to 'hard return' (press Alt + Enter) to make the text visible. Alternatively, you can edit your text in another application (such as Notepad), then paste into MDC.
- Q. Why am I seeing an error on a text field?**
A. Text fields have a limit of 1000 characters. Please ensure all text fields do not exceed this limit.
- Q. What exchange rate should I use?**
A. Please calculate the SCRs on the same exchange rate that was used in the linked SBF return (except for March resubmissions where the year-end FX rates must be used for the LCR which will diverge from the SBF at this stage only).
- Q. Do Lloyd's mandate rates of exchange to use in the September Lloyd's Capital Return (end June rates) represent a model change compared to the March rates used for the initial submission?**
A. This depends on whether agents consider that FX rates are an input of data or a parameter. For those that treat this as a parameter and have adopted the latest level 3 guidance, then yes this is a model change. There are no current requirements to obtain Lloyd's approval of such a change. In view of the small movements in rates, we consider that all model change policies we have seen would treat this as a minor change. Noting the exchange rate used on form LCR 313 serves as enough notice for Lloyd's in respect of this.
- Q. Do syndicates still need to submit the ECR calculation?**
A. No requirement to submit.
- Q. Why are negative figures not being accepted in MDC?**
A. Ensure the format is -XXX. The (XXX) format is not accepted in MDC.
- Q. Why is some text not visible or legible in MDC?**
A. This is a known issue in MDC. An upgrade to the MDC version to 4.4.1 is due in late August 2020, and it is expected to resolve this issue. If a return has been started before this update, then a copy of the return will need to be made after the update, to ensure the issue is resolved.
- Q. If I want to resubmit or start a new task, do I have to start again from scratch?**
A. No, you can copy data from a previous return (including the warning comments). Edits can then be completed for the resubmission. These steps should allow copy of the data and comments:
 1. Click on the 'Returns' button.
 2. Select 202X Underwriting Year.
 3. Select version to copy by pressing the 'Copy' button.
 4. Insert new version name.

5. Class of Business selections should be replicated, move through stages by clicking 'Next' & 'Generate'.
6. Question – do you want to copy data from previous version = click 'Yes'.
7. For warnings comments you have the function to download warnings to excel, update the comments and upload into the return to populate the same comments in the new version.
8. The process suggestion is to download the warnings file –



a. Click on Validation  ;



- b. click on the Action Button within the Validation bar
- c. Then 'Download Warnings' from the original submission (blue arrow above),
- d. Copy and paste the comments from the original to the new template (warnings should be in same order if there were no changes between downloads)
- e. Then upload via the 'Upload Comments' function in the Validations bar (red arrow above).

LCR FORM SPECIFIC QUESTIONS:

Form 012

Q. What is the hypothecated return option?

- A.** This enables the user of the return to prepare an LCR for consideration by Lloyd's without it being a formal return signed-off by the Board at the syndicate. Examples of such returns include RITC submissions, or pre-stop loss capital submissions.

Form 309

Q. In the uSCR calculation, is there any allowance for ENIDs?

- A.** Syndicates must ensure that the 1:200 is taken from the full distribution, which includes allowing for ENIDs. Please note the FAQ further on in the form 520 section regarding ENIDs.

Q. Should insurance risk values include or exclude diversification between premium and reserve risk?

- A.** Agents are advised to submit premium and reserve risk pre-diversification values (columns A and E) prior to any diversification with each other and prior to any diversification within the risk category. Please see example below, which applies to both one year and ultimate splits:
- *On a one-year basis*, the Premium risk stand-alone value is £15m; Reserve risk is £10m. After diversification between the two, premium risk value is assessed at £12m and reserve risk at £8m. After diversification with other risk categories the value for insurance risk is £18m.
 - Please submit £15m in pre-diversification column A line 2 and £10m in column A line 3
 - Please submit £20m in pre-diversification Insurance risk total column A line 1.
 - Please submit £18m in post diversification Insurance risk total column C line 1.

Q. Should RI and Other Credit risk values include or exclude diversification within the risk type?

- A.** Reinsurance and Other Credit risk pre-diversification values should be submitted prior to diversification within the risk category and line 4 should be after diversification between Reinsurance and Other Credit risk. The post diversification Credit risk total should be post diversification with other risk categories (please review Insurance risk point above).
- Q.** **Our syndicate is in Run-Off and we have not entered a value in Premium risk, should I tick the checkbox at the bottom of the page?**
- A.** No, only Run-Off agents that submit a value in the premium risk category should tick the checkbox and then provide justification for the value entered using the comments section within the MDC system before submission.
- Q.** **How do I report the expected underwriting profit in premium risk?**
- A.** This should be included within premium risk and not as an offset in the diversification credit (line 10).
- Q.** **What is meant by the phrase ‘net of the expected return more than the risk-free rate’?**
- A.** Investment returns in excess of the risk-free rate, and the risk arising from changes to the risk-free rate, should be included within market risk not insurance risk.
- Q.** **The guidance suggests we must assume investment profit is released realistically and not rolled up in shareholders’ funds through to ultimate. What about other sources of profit?**
- A.** For the one-year SCR, the model needs to release investment profit as recognised annually – for the ultimate basis we require this no later than 3 years, to reflect the reality of full distribution of profits at Lloyd’s. The timing of distribution of profits from other sources is less of a concern, since the focus of capital is at the 1:200, when the syndicate is in deficit, and will not be distributing other profits.
- Q.** **Should I be providing discounted values in form 309?**
- A.** The 1:200 outcomes on premium and reserve risk should be consistent with the stress on an undiscounted basis.
- Q.** **How should the reinsurance contract boundary adjustment figure be derived?**
- A.** This figure is derived in the form 571 based on inputs in form 570 relating to the technical provisions and model output. Further detail on the derivation of the adjustment based on these figures is included in the SCR Guidance and LCR Notes.
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Form 310

- Q.** **Is the 99.5th value on form 310, the same as the headline SCR on form 309?**
- A.** Yes, please refer to the Instructions for further information and this element has been amended to automatically complete from the data entered on form 309.
- Q.** **If the Mean value (column A) is deemed to be a loss by the syndicate (i.e. a positive value), what do I do?**
- A.** The return can accept a positive value, so please complete as necessary. The warning (to allow positive values) will prevent submission of the LCR, until a comment has been provided within the business validations section of the MDC System.
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Form 311

- Q.** **Should I complete form 312 before I finalise form 311?**
- A.** Yes, column H of form 312 will be used to pre-populate column H of form 311.

- Q. Should we include underwriting and reserve risk losses?**
A. Yes. We are looking for the sum of claims (including ALAE) being paid during the modelled (= proposed) year plus those reserved for at the end of the model year. The claims can emerge from new business or previously written business.
 Since the provisions at the start of the model year are on a best estimate basis, the assumption is that on average there will be neither a reserve release nor a reserve increase at the end of the model year. So, for previously written business, the mean claims paid during the modelled year plus the mean reserves at the end of the modelled year are the same as the starting reserves on an undiscounted basis.
 Therefore, an equivalent calculation for the total modelled losses would be to take the reserves at the start of the modelled year plus the claims arising on new business (earned and unearned) during the modelled year.
 Table 1 is the aggregate result for all years (1991 to proposed year plus closing unincurred legal obligations for the one-year basis, 1991 to proposed year for the ultimate basis). Table 2 splits the mean into underlying pure year and closing unincurred legal obligations. Closing unincurred legal obligations means the unincurred legal obligations in the net Technical Provisions set up at the close of the modelled year.
- Q. Does “underlying pure year” refer to the Calendar Year or the Year of Account?**
A. Year of Account.
- Q. Should syndicates account for the profit in the UPR?**
A. Form 311 is concerned with claims (including ALAE) only, so there will be no profit as such. The claims (including ALAE) to include in Section 2 are on a best estimate basis, so will be based on expected profitability.
- Q. Should we include any investment income in the figure provided?**
A. No. The claims should be undiscounted.
- Q. Should we include expenses in the figure we provide?**
A. ALAE only.
- Q. Do you want us to provide you with the underwriting result (i.e. premiums less losses) or just the loss amount?**
A. The loss amounts only (claims plus ALAE).
- Q. Should the 99.5th and other percentiles include the risk of exchange rate movements?**
A. No. Form 311 is for insurance risk only.
- Q. When it says “one-year view” does that relate only to expected undiscounted claims arising from premiums earned in or before the modelled year, or including reserves at the end of the year that relate to all future earned premium?”**
A. It should include claims arising from premiums earned in or before the modelled year plus claims from unearned premiums and the Unincurred Legal Obligations in the Technical Provisions set up at the end of the modelled year.
- Q. Should the mean net of reinsurance values in Table 1 be the same for both one-year basis (A1) and ultimate basis (A3)?**
A. No, they are expected to differ. This is because the one-year figure should include Unincurred Legal Obligations in the closing technical provisions and the ultimate figure should not.
- Q. I have inputted adjustments to the total mean modelled insurance claims that have a material impact to the final values, what should I do?**

- A. Any material adjustments require an explanation to be included within the documentation to be attached.
- Q. I have inputted new business values adjustments to the total mean modelled insurance claims that have a material impact to the final values, what should I do?**
- A. Any material adjustments require an explanation to be included within the documentation attached. Any values entered in years of account outside of the last three open years also require an explanation.
- Q. Should values in this form be undiscounted?**
- A. Yes.
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Form 312

- Q. I have a negative allocation on a year of account split, what should I do?**
- A. Negative values are now acceptable for the insurance losses in columns A, B, C, H, I, J. As negative insurance losses can now be excluded within the Lloyd's model manual edits are no longer required.
- Q. I need to submit negative values on this form, is that okay?**
- A. Agents are requested to justify any negative values in columns D, E, F, G, K, L, M, N, O with a brief explanation as an attached document. Lloyd's may have to manually amend them back out, so please only submit them if necessary.
- Q. Should the TPs in form 312 be for the opening or closing of the year?**
- A. Closing as at December.
- Q. I have a larger Net value than I do for the Gross equivalent, is that okay?**
- A. Lloyd's cannot accommodate net values larger than gross and will need to make manual edits prior to loading the data to the benchmark model. Therefore, where possible please avoid this data entry and should you submit larger net than gross data please provide an explanation within the comments section in MDC System.
- Q. Am I correct in interpreting the guidance to mean that binder business should not be included in modelled unaccepted business? Is this intended to be consistent with the calculation of technical provisions and the guidance issued for that work-stream?**
- A. That is our recommendation, but agents may include them if that is how they define contract boundaries. Either way, the calculation of technical provisions and the SCR should be consistent in the treatment of binder business.
- Q. Do you require the SCR to be adjusted for the risk margin held in the TPs? Does that mean we need to reduce the SCR we report in the LCR accordingly?**
- A. The risk margin in the ultimate SCR is considered in the TPs (as a "cost of capital") and is run-off to zero. Any gain made by the difference between the ultimate 1:200 losses and the time zero balance sheet, can be set off against reserve risk. So, if the deterioration to ultimate from existing TPs (stated at best estimate pre-risk margin) is 20 and overall SCR ignoring the risk margin movement is 100 then:

SCR is 95, reserve risk is 95. On the excel s/sheet, show mean of -5, stress of 20, reserve risk 15.

The risk margin in the one-year SCR will have a held value at twelve months' time and therefore will be considered as part of the reserving risk (charge for incepted business) and in the premium risk calculations (new business bound from 1st January in the proposed year).

Q. How should Managing Agents treat accrued managing agent profit commission in their projected December balance sheets and SCR calculations in the Lloyd's Capital Returns (LCR)?

A. The best estimate profit commission (PC) should be established on a basis consistent with the presentation of the Solvency II balance sheet and balances due to members. The adjustments required from the actual syndicate balances on a UK GAAP basis to prepare modelled assets equal to net technical provisions on a Solvency II balance sheet should consider the open year PC accrual on a Solvency II basis.

We would expect agents to assume that the 4th year of account closes (if there are any doubts about the 4th year of account closing please inform Kevin Barnes), and profit commission is paid away with the closing profits on a GAAP basis.

Where the Solvency II balance sheet reports different net balances because of the change in the calculation of technical provisions, the PC accrual in the balance sheet should reflect this. i.e. if the Solvency II net balance is higher than under UK GAAP, this would trigger a higher PC payable and this amount should be the basis of the accrual in the December balance sheet (T0).

The PC accrual reverses when assessing the 1:200 capital requirements, provided agents can demonstrate through the model that the relevant year of account is loss making at the 1:200 overall for the syndicate. In those instances, yes, the PC is "loss absorbing".

Form 313

Q. Should the SBF data link to my latest SBF or current year SBF?

A. The final LCR should be based on the most up to date SBF possible. Data within the LCR and SBF returns are directly inputted into the syndicate and member capital setting processes and therefore must be the most up to date information for the modelling year. A resubmission of the LCR should report the SBF version that the LCR is based on.

Q. Why is the 'Return Information' required?

A. This data assists the relevant Lloyd's teams with their review.

Form 314

Q. Why is there a warning on the interest rate risk – liabilities, that mean should equal the 1:200 on an ultimate basis?

A. This field should only capture the unwinding of time 0 discount credits to ultimate, which is deterministic at time 0. There is no risk associated with this. Any risk associated with changing interest rates affecting the value of held securities and return on investment should be captured within the interest rate risk – assets line. On a 1-year basis, the interest rate risk – liabilities line should capture the change in discount credit from t0 to t1 provisions (which could include the impact of changes in risk free rates, run-off of business, and discounting credits related to new business liabilities at t1), and thus the mean will not ordinarily equal the 1:200.

Forms 500, 502, 510

Q. Why are the Net Claims Percentiles Totals not equal to the aggregate of the Class of Business entries?

A. This is intentional, as the sum of the classes and Totals are all manually inputted. They also constitute the components for analysing various Fully Dependent versus Modelled metrics. The “Total” percentile figures are the diversified totals and not the sum of the class results.

Q. Is the validation correct on the mean net claims?

A. The validation screen suggests that the validation is pointing to the ‘All Other’ cell, rather than the sum of the mean net claims. Please note the logic in the validation is correctly validating against the sum of the column not just the ‘All Other’ line as the validation highlighting suggests. If you are still failing the validation, please check the rounding of the values in the column and then ensure the column total match the form 313 cells as per the specification.

Q. What is the validation error relating to in the Post-diversified claims total cell?

A. A new auto-calculated Total cell has been added for the new Post-diversified claims column in the Question 1 table of each of these forms (500 & 502 column I(i) Total, 510 column F(i)). This will enable syndicates to more easily check any potential Validation error in the Net Claims Percentiles 99.5th column. Syndicates do not now need to manually input into these cells.

The accompanying text in these LCR forms (final bullet point in Question 1) for the “Post diversified claims” field is incorrect and does not match the validation test applied to the Total row. Agents should complete the “Post diversified claims” field in line with the validation test, i.e. provide post-diversified claims for the risk category being captured in the respective forms, and not contribution to insurance risk.

Form 520

Q. On what basis should I complete question 6?

A. A risk basis to be consistent with form 314.1.

Q. Do I have to complete the ENID columns in Q5 and Q6?

A. No. These columns will be removed from MDC in the 2022 LCR specification, therefore, managing agents should leave it blank for this LCR submission. Please ignore the reference to the SCR Guidance in the ENIDs line of the question text, this will also be removed in the 2022 LCR specification.

Form 530

Q. For Question 2, what is the basis of modelling required for this question?

A. This question requires managing agents to remove the modelled outwards reinsurance benefit to the SCR: firstly, non-proportional reinsurance, and then all reinsurance. Lloyd’s intends to use this data to monitor, at a high level, the overall capital benefit of reinsurance to syndicates. This is an important part of the difference between syndicate and central modelling and also understanding the high-level risk profile evolution of the market.

Lloyd’s appreciates that the exclusion in the model may not be straightforward. Syndicates are requested to take a proportionate approach which best represents the impact to capital if reinsurance was not applied. For non-proportional cover managing agents should only remove the benefit of reinsurance, not premiums or commissions, whether they relate to reinstatements or otherwise. Lloyd’s will compare this impact submitted in 2019 to that submitted in 2020 and ask questions if the movement in reinsurance benefit is not intuitive based on changes in cover. For quota share cover the syndicate should take an approach that appropriately represents the capital benefit, ideally this would not overstate the impact by comparing a model gross position to opening net reserves if quote

share cover is material. For one-year capital, managing agents are only required to remove the benefit of reinsurance during the one-year period. Please comment on the approach taken in the appropriate place, including any limitations and the materiality of cover that could not be removed for practical reasons.

Form 540

Q. Question 1 is now out of line with the guidance. Why is that?

- A. Due to time constraints the text in Q1 was not updated in MDC. The proposed updates to the question text will be inserted into the 2022 LCR specification. A summary of the changes is below:
- Appendix D of the Lloyd's Capital Guidance should be referred to for formulae and a detailed example regarding the method for calculating the post-diversified SCR risk type amounts (currently states the Notes to the Supplementary Questionnaire).
 - The second step in the question text has further guidance and information (not currently stated in the text in MDC), on Lloyd's provision of a "method of calculating upper and lower bounds, based on the number of simulations in a syndicate's model. This method calculates the smallest allowable range - managing agents can widen the range of simulations, with justification."

Form 560

Q. Should I be inputting certain unnaturally open back years in to the YOA inputs?

- A. The way MDC is set up, only incremental years can be inputted. If you need to declare any unnaturally open back years, then please input them into table as per the yellow cells below. Please refer to the CSV instructions in the MDC Help section on how to include these in the CSV template.

This example is illustrative of the 2021 return only:

YOA
2021
2020
2019
2018
2017
2016
2015

Form 561

Q. The guidance reference in Question 1 is now out of line. Why is that?

- A. Due to time constraints the text in Q1 was not updated in MDC. The proposed updates to the question text will be inserted into the 2022 LCR specification. The reference in the last line should read: "Please refer to section 3.11 of Lloyd's Capital Guidance on Lloyds.com for details."

Form 562

Q. Which classes of business are available for selection in the SBF Class column?

- A. Classes of business are available for selection in the LCR once they have been manually inputted into the Syndicate Classes of Business reference table within the Data Maintenance section on MDC. These can be monitored and edited by devolved administrator at your syndicate.

Q. Why can I not see the classes on 562 despite following the above advice?

A. The classes are available just click in the blank rows, then press return, they then appear for selection.

Form 600

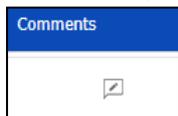
Q. Which returns are being compared?

A. The first column (the “This Return” column) is the LCR return currently being completed. The second column (the “Selected Return” column) is the comparative LCR, which can be selected on form 012. Note: returns from either the same modelling year as the current LCR return being completed, or the previous modelling year can be selected. For the current LCR modelling year, any return with a status in MDC of Submitted, Under Review, Accepted or Approved and with a Version Number less than the current LCR can be selected. For the previous modelling year option, only returns with an Approved status can be selected.

MDC PROCESSES:

Warnings & Comments

- When uploading the comments for warnings, do not do this while within the workflow as this can be problematic. Please try to upload the warnings comments from Excel whilst in the return view.
- The process for copying comments is described towards the end of the general FAQs.
- Maintain the same shape of the data file too, so don't add any columns / rows or change the order of the warnings from the version that you download from MDC to complete.
- Every warning requires a comment before the LCR can be submitted.
- When completing loading comments on MDC there is the following symbol on warnings



click this to enter comments.

- The cursor does not change when hovering over the comment box but press it anyway and the warning box will appear. This summarises the test and allows comments to be entered at the bottom of the section and then save the comments.
- If you do not see the comment symbol (above), look to the left of the screen for this symbol:



which will expand to show all the warnings for comment. Forms with multiple lines (i.e. 311/312) may have the arrow on the left-hand side of the screen (non-completion will prevent submission, so if you see a warning while trying to sign off check for this symbol and expand to complete.

Document Uploads

- The file size limit for uploading to MDC is 15 MB. Files supported are:
 - zip, ppt, ppts, pdf, doc, docx, docm, wml, dot, dotm, xls, xlsx, xlsb, xlt, jpg, png, xml, csv, tsv, json, txt, bpmn, app and form.

- You can create a zip folder and then link once rather than multiple times, which is quicker.
- Please note that documents should be added to the Task. If you add documents into the 'Supplementary Documents Upload' section of the workflow then only one file will be visible to Lloyd's. This section is really for any commentary you want to add on top of what you attach as standard and as mentioned only displays the last uploaded document to us.
- Should you encounter issues uploading or have many attachments, then please load any required documents to the SecureStore system using the following path:

[\(Lloyds.com>ToolsandSystems>SecureStore>MRC - Syndicate Capital Setting\)](#)

SecureStore does offer a faster upload and download process, so any more than 2-3 attachments are advised to be sent via SecureStore.

Workflow Completion and Submit to Lloyd's Process

- Once all the errors have been removed and all warnings have a comment attached, including the expanded 311/312 and 500/502/510/561/562 comments, then complete a final validation (press **VALIDATE** button).
- The next step is to link to a workflow (if you already linked the return skip down to step 'x'). If an incorrect return has been linked, then please restart the process.
 - Press **Home** in the main function bar.
 - Select the relevant LCR Submission Date in the 'Business Calendar' list.
 - Press **Start**.
 - Press **Yes** to navigate to the task (if **No** is selected, to see the task you just created, select **Tasks** then **Available**).
 - Select any of the **Prepare & Validate LCR Return** workflows available for the syndicate being worked on.
 - Press **Claim** to take ownership of the **Prepare & Validate LCR Return** task.
 - Note: if being redirected here from a later 'Task', then the return being worked on should already be linked. If this is the case, then please skip to step 'xi'.

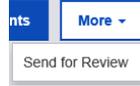
Press **Link Return** to select the LCR return you have been working on and just validated

- Press the view symbol **View** on the return you wish to link.
- Press **LINK TO WORKFLOW** in the top right corner
 - 'Errors' in the data will prevent linking – open Return and fix.
 - Missing comments can also prevent linking, so complete these too.
 - Remember to press **VALIDATE** again after any changes are made.
- Press **YES** and **OK** to the prompts that appear in the ribbons at the top of the screen.
- Navigate to **Assigned** if not redirected automatically. Select the **Prepare & Validate LCR Return** workflow that now shows the version number and name being submitted.

Note: if being redirected here from a later 'Task', then the return being worked on may not need an updated submission document uploaded. Alternatively, a document may not be required to be uploaded at this stage. If this is the case, then please skip to step 'xvi'.

If required, press **Upload Supplementary Documents** and follow steps to upload one submission document.

- xii. Navigate to **Available**. Select the **Upload Supplementary Documents** workflow that now shows the version number and name being submitted.
- xiii. Press **Claim** to take ownership of the task.
- xiv. Upload one document to accompany your submission by clicking **Browse...** to navigate a directory. Comments for this document must be entered below this section. Task Comments can also be left on the left-hand side.
- xv. Press **Send for Review** to complete the upload process.



- xvi. Press 'More' then 'Send for Review' to move to the next task.

Steps: 'xvii'-'xxi' are all performed by the assigned sign-off manager:

- xvii. Navigate to **Available**. Select the **Review LCR Return** workflow that now shows the version number and name being submitted.
- xviii. Press **Claim** to take ownership of the task.
- xix. Navigate to **Assigned** if not redirected automatically. Select the **Review LCR Return** workflow that now shows the version number and name being submitted.
- xx. The return can now either be:

- viewed **View Return**, so the data can be viewed, and the validity of the return can be assessed.



- Rejected: press 'More' then 'Reject'. If rejected, then the system will take the user back to step 'v' for re-review of the return.
- signed off as approved ready for submission **Sign Off**. If Approved, then carry on from step 'xxii'.

- xxi. After each of the options above, click **Confirm** to proceed, or **Cancel** to reconsider any of the options.

- xxii. Navigate to **Available**. Select the **Submit to Lloyd's** workflow that now shows the version number and name being submitted.

- xxiii. Press **Claim** to take ownership of the task.

- xxiv. Navigate to **Assigned** if not redirected automatically. Select the **Submit to Lloyd's** workflow that now shows the version number and name being submitted.

- xxv. Add any final comments or conduct any required reviews (i.e. if your internal process has different sign-off to submitter roles assigned).

- xxvi. The return can now either be:



- Reopen return. If re-opened, then the system will take the user back to step 'v' for re-review of the return.
- viewed **View Return**
- submitted **Submit to Lloyd's**

- xxvii. After each of the options above, click **Confirm** to proceed, or **Cancel** to reconsider any of the options.

xxviii. Navigate to **Completed**. Select the **Submit to Lloyd's** workflow that now shows the version number and name that has just been submitted, where the Return can be viewed again **View Return**. This confirms successful submission.