LLOYD'S

MARKET BULLETIN

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Title	Amended Run-Off Guidelines
Purpose	To update Lloyd's guidelines for syndicates in run-off
Type	Event
From	Steve McCann, Head of Open Years and Data Management Performance Management Directorate
Date	8 October 2014
Deadline	Immediate
Related links	Underwriting Byelaw Requirements made pursuant to the Underwriting Byelaw

Lloyd's is issuing updated guidelines for syndicates that are already in run-off or where managing agents plan the cessation of underwriting by a syndicate or believe there is a reasonable prospect that a syndicate will cease underwriting and be placed into run-off. The guidelines are also relevant where a year of account of a syndicate is not to be reinsured to close at 36 months.

A copy of the updated guidelines is attached to this market bulletin.

The guidelines are intended to assist managing agents who manage syndicates in run-off to plan and conduct the run-off management in an efficient and orderly manner. They are also intended to ensure that Lloyd's is able to obtain the information needed properly to monitor syndicates in run-off and to enable it to take appropriate action to protect the Society, should that be necessary.

The guidelines aim to reflect best practice in the conduct of syndicate run-off management. Of particular importance is the requirement for managing agents to prepare plans to a high quality and to ensure that they put in place appropriate monitoring and reporting to evidence the delivery of such plans.

The guidelines have been prepared in consultation with the LMA and its members. They update and replace the guidelines issued with Market Bulletin Y3120 of 18 August 2003.

These guidelines are issued pursuant to paragraph 24 of the Underwriting Byelaw.

Further Information

If you have any questions regarding the Run-Off Guidelines please contact:

Steve McCann, Head of Open Years and Data Management
(email: Steve.McCann@lloyds.com; tel: +44 (0)20 7327 5984)

Julia Petrusyk, Senior Manager, Open Years
(email: Julia.Petrusyk@lloyds.com; tel: +44 (0)20 7327 5702).

RUN-OFF GUIDELINES

1. Explanatory note

1.1 These run-off guidelines are intended to assist managing agents who manage syndicates in run-off to plan and conduct run-offs in an efficient and orderly manner. They are also intended to ensure that Lloyd's is able to obtain the information needed properly to monitor syndicates in run-off and to enable it to take appropriate action to protect the Society, should that be necessary.

1.2 Lloyd's seeks to achieve these objectives by assisting managing agents to adopt best practice in the conduct of their run-offs and will provide advice and guidance, as necessary, to agents to enable them to develop appropriate plans and high quality reporting to ensure the delivery of such plans.

1.3 These run-off guidelines are intended to set out the steps that a managing agent will ordinarily be expected to follow when –

a. the managing agent considers that there is a reasonable prospect that a syndicate under its management will, within the foreseeable future, permanently cease to underwrite contracts of insurance and be placed into run-off;
b. the managing agent has taken the decision to permanently cease underwriting on behalf of a syndicate, other than by reason of a Lloyd's approved merger, and place it into run-off either immediately or at some point in the future. In these guidelines, such a syndicate is referred to as a "run-off syndicate";
c. managing a run-off syndicate;
d. managing one or more syndicate years of account which have not been reinsured to close after 36 months but where the syndicate continues to underwrite for the current year of account. In these guidelines, such a syndicate is referred to as a "run-off account".

1.4 These run-off guidelines are intended to assist managing agents properly to protect the interests of the members of the syndicate in question, policyholders and Lloyd's, including the New Central Fund.

2. Obligation to keep the viability of syndicates under review

2.1 The decision to place a syndicate into run-off can have very serious consequences for the members of the syndicate, the managing agent and Lloyd's. Accordingly, the board of directors of a managing agent must keep the viability of each syndicate under its management under continuous review.

2.2 As required by paragraph 75 of the Underwriting Byelaw, the board of directors of each managing agent should consider regularly whether there is a reasonable prospect that a syndicate under its management will, within the foreseeable future, permanently cease to underwrite contracts of insurance and reinsurance, and so be placed into run-off. The board's considerations should be fully minuted.

2.3 In the event that the board of directors has any concern about the future viability of any syndicate under its management, the managing agent must immediately inform the Performance Management Directorate ("PMD") and provide such additional information as will be necessary for the PMD to assess the position.

2.4 The PMD will ordinarily seek to meet with representatives of the managing agent as soon as possible to discuss the position in an open and constructive manner.

2.5 As soon as a managing agent decides that a syndicate under its management is to cease underwriting, the managing agent will have 60 days to prepare a detailed run-off closure plan (see Appendix 1). The PMD will normally require the managing agent to engage in discussing the contents of the run-off closure plan before it is finalised. This is laid out more fully in Sections 3 and 4 below.

3. Steps to be taken prior to run-off – preparation of a run off contingency plan

3.1 If, following the meeting between the PMD and the managing agent, it is concluded that there is a reasonable prospect that a syndicate will be placed into run-off at some point in the foreseeable future, the managing agent will ordinarily be required to prepare a run off contingency plan. The managing agent will usually be expected to appoint a director to have the day to day responsibility for the preparation and execution of the plan.

3.2 The information in the run-off contingency plan should reflect the two distinct phases inherent within the plan. The first of these relates to the management of the syndicate whilst it continues to underwrite, and the second relates to the management of the syndicate following a decision to place the syndicate into run-off.

3.3 Lloyd’s guidance on the detailed contents of the run-off contingency plan, as prescribed under paragraph 78 of the Underwriting Byelaw, is contained in Appendix 2.

3.4 Once the run-off contingency plan has been prepared and agreed with the PMD, the managing agent will be expected to manage the operation of the syndicate in accordance with the plan in the event that it is executed.

4. Where a syndicate is placed into run-off

4.1 This can happen in a number of situations –

a. where a managing agent has decided to place a syndicate into run-off with immediate effect where this had not been foreseen by the managing agent and no run-off contingency plan has been prepared (an “Unplanned Run-Off ”);
b. where a syndicate has been placed into run-off with immediate effect where a run-off contingency plan has been prepared (a “Planned Immediate Run-Off ”);
c. where a managing agent has taken the decision to place a syndicate into run-off at some determined date in the future (a “Planned Delayed Run-Off”).

An Unplanned Run-Off

4.2 It is expected that an unplanned run-off will be highly unusual if managing agents comply with their obligations under section 2 above. In the event that a managing agent convenes a board meeting for the purposes of deciding whether to place a syndicate into run-off with immediate effect and where the PMD is not already on notice of this, the managing agent must immediately notify the PMD and provide such additional information as the PMD requires to assess the position.

4.3 It is recommended that the managing agent receives, prior to or at the board meeting, legal advice relating to all its obligations, including its obligations under the relevant managing agent’s agreements with the members of the syndicate, under Lloyd’s rules generally, and these Guidelines.

4.4 There are actions required in the early stages of a run-off in order to ensure that the run-off is conducted in a prudent and efficient manner. The actions that a managing agent intends to take at this early stage must therefore be discussed with the PMD at the first opportunity and, in addition to preparing a run-off closure plan, the managing agent will ordinarily be required to prepare and implement a plan (the initial plan) that addresses the content of paragraph 5b of the guidelines for run-off contingency plans (see Appendix 2). The managing agent will be required to appoint a director to have day to day responsibility for the preparation, review and implementation of the plans.

4.5 Lloyd's will ordinarily allow the managing agent 60 days in which to finalise the run-off closure plan. However, during that period, the managing agent will ordinarily be required to report to the PMD regularly on the implementation of the initial plan and on the progress towards finalisation of the run-off closure plan.

A Planned Immediate Run-Off

4.6 A managing agent will normally have developed its run-off contingency plan as the prospect of run-off increases so that it includes greater detail in respect of the management of the syndicate following a decision to place the syndicate into immediate run-off.

4.7 The managing agent may have prepared a run-off closure plan. If not, the managing agent will be required to do so.

4.8 If it has not already done so, the managing agent will be required to appoint a director to have the day to day responsibility for the preparation and review of the run-off closure plan.

4.9 Lloyd's will ordinarily allow the managing agent 60 days in which to finalise the run-off closure plan. However, during that period, the managing agent will ordinarily be required to report to the PMD regularly on the implementation of paragraph 5 of the guidelines for run-off contingency plans (see Appendix 2) and on the progress towards finalisation of the run-off closure plan.

A Planned Delayed Run-Off

4.10 Where the managing agent decides, following a meeting with the PMD, that a syndicate will cease underwriting at a specified future date ("the effective date"), it will ordinarily be required to take the following actions –

a. prepare and submit to the PMD a short-term management plan. This will address the proposals for the management of underwriting up to the effective date, so as to minimise the cost and duration of the run-off. Managing agents will be expected to manage the syndicate and its underwriting in accordance with this plan;
b. prepare and submit to the PMD a run-off closure plan (see paragraph 2.5 above).

4.11 The timing of the preparation and submission of each of the plans will be discussed and agreed with the managing agent and monitored by the PMD.

5. General approach to run-off syndicates

5.1 Every managing agent managing a run-off syndicate or a run-off account must seek to close the relevant years of account at the earliest possible time consistent with the proper performance of its duties as managing agent of the syndicate. The managing agent must adopt objectives, strategies and plans supporting and evidencing adherence to this requirement and appoint a suitably qualified run-off manager approved by Lloyd's.

5.2 The PMD will expect the run-off manager to adopt a professional project management approach to the management of the run-off. In particular, the managing agent may wish to consider who is best placed to manage the run-off and whether the appointment of a substitute agent or an approved run-off company would be appropriate.

5.3 The managing agent must keep the suitability of the run-off closure plan under continuous review, amend the plan as necessary and manage the run-off in accordance with the run-off closure plan.

6. Who should manage and conduct the run-off?

Substitute agents

6.1 Whenever a managing agent proposes to place a syndicate into run-off, the PMD may undertake a review of the managing agent to determine whether the managing agent is the most appropriate person to manage the run-off having particular regard to the interests of –

a. policyholders;
b. any unaligned members of the syndicate (having consulted with them through their members' agents, where one has been appointed);
c. the interests of any member of the syndicate supported by payments from the New Central Fund.

6.2 If the PMD considers that the managing agent may not be the most appropriate person to manage the run-off and that the appointment of a substitute agent may therefore be in the interests of the members and policyholders of the syndicate, it will seek to agree an appropriate course of action with the managing agent. In the absence of agreement, the PMD may make arrangements to appoint the person who, in the view of Lloyd's, is the most appropriate person to manage the run-off.

Run-off companies

6.3 Pursuant to paragraph 86 of the Underwriting Byelaw, the Franchise Board has designated certain functions as executive functions, insurance functions or administrative and processing functions (see paragraphs 13-15 of the Requirements made pursuant to the Underwriting Byelaw). Managing agents may, with the prior approval of the Franchise Board only, delegate any of these functions to another managing agent or an approved run-off company.

6.4 The board of directors of a managing agent must demonstrate that it has given careful consideration to the following factors when seeking permission to delegate any of these functions -

a. the interests of the members and policyholders of the syndicate;
b. the skills, experience and resources of the managing agent to manage and conduct the run-off efficiently;
c. how the managing agent will manage any conflicts of interest identified in the run-off closure plan;
d. the capability and resources of the persons who will be carrying out the delegated functions

6.5 The above factors should be set out in writing and must be discussed with the PMD in advance of the board meeting at which any delegation may finally be decided. The PMD will seek to work with the managing agent in its analysis of these factors.

6.6 The managing agent will ordinarily be required to notify the PMD of its board's decision with regard to delegation and set out its reasons for the decision. The PMD will review the decision with the managing agent, and may require the managing agent to review its decision or, exceptionally, direct the managing agent to adopt a different run-off strategy with regard to delegation.

7. The management and conduct of run-off syndicates and accounts

Responsibility of the managing agent

7.1 In every case, the managing agent is responsible to the members of the syndicate for the management of the run-off notwithstanding that an approved run-off company has been appointed or functions have been delegated to another managing agent. Accordingly, the managing agent must adopt proper procedures and controls to oversee and monitor the performance of any managing agent or approved run-off company it has appointed.

7.2 The managing agent and approved run-off company must at all times continue to have regard to Lloyd's Minimum Standards.

7.3 In addition, managing agents and approved run-off companies must properly plan and manage –

a. the cost-effective mitigation of unexpired risk;
b. agreement and settlement of claims;
c. the resources required to conduct the run-off according to the run-off closure plan;
d. financial management;
e. reporting against the run-off closure plan to the board, members and the PMD.

Further detail of each of these is set out in Sections 8 to 12 below.

8. Exposure management

Cessation of underwriting

8.1 This will require consideration of the following, including appropriate timelines –

a. terminating the existing authority of directors, officers and employees of the managing agent to –

   i. enter into new contracts of insurance and/or reinsurance;
   ii. amend, extend, endorse or renew existing contracts of insurance, except in accordance with the terms of the existing policy;
   iii. enter into new delegated underwriting arrangements;
   iv. amend, extend or renew existing delegated underwriting arrangements.

b. taking custody of all underwriting stamps;
c. terminating lineslips on which the relevant syndicate participates;
d. seeking to terminate other delegated underwriting arrangements as soon as possible;
e. delegating limited authorities to directors and senior employees in accordance with the run-off contingency plan or run-off closure plan.

8.2 The PMD will provide managing agents with guidance as to how they may achieve the matters set out above when they prepare either the run-off contingency plan or the run-off closure plan.

Identifying and recording contracts of insurance that have been underwritten

8.3 The PMD considers that it is essential for the professional management of run-off business that the managing agent continues to maintain full, accurate and complete records of all contracts of insurance underwritten by the syndicate. These records will include slips, contract wordings and records relating to contracts written under delegated underwriting arrangements.

8.4 The review, verification and where appropriate the completion of these records forms a key element of the run-off contingency plan and the run-off closure plan. However, if any material errors or omissions are identified during the run-off planning process, the managing agent should assess the adequacy of all books and records and where they are found to be deficient the run off plan should address this accordingly.

Cancelling, commuting and replacing contracts of insurance

8.5 Managing agents should carefully review all contracts of insurance underwritten by the syndicate to determine whether there is any scope for seeking to cancel, commute or replace those contracts, in accordance with the wording of the contracts. Considerable care must be taken at all times to ensure that policyholders are treated fairly and that any proposed step will not adversely affect the members of the syndicate or the reputation, ratings or licenses of the Society. Where necessary, all proposed steps which may have that effect must first be discussed with and agreed by the PMD before any action is taken.

Effective use of reinsurance

8.6 This will usually include the following –

a. assessment of the likelihood of loss and probable quantum arising from the syndicate's underwriting;
b. identification of all existing contracts of reinsurance for the benefit of the syndicate business in question and the assessment of all restrictions and limitations in respect of those reinsurances;
c. assessment of the adequacy of those reinsurances having regard to all of the contracts of insurance and reinsurance underwritten by the syndicate, remaining coverage, reinsurance security, and disputes;

d. consideration of the prudence and cost effectiveness of purchasing additional reinsurance and the availability of such reinsurance.

8.7 Managing agents should consider in any proposed reinsurance purchase that the appetite for risk of the members of the syndicate may have changed, following the cessation of underwriting.

9. Claims management

9.1 The run-off closure plan should include an assessment of overall claims management, and make appropriate recommendations taking account of the relevant regulatory guidance and Lloyd's Minimum Standards.

9.2 The managing agent should review existing claims settlement authorities, amending these as appropriate. Areas where change or amendment may be appropriate are:

a. Claims authority for own staff: to exclude any authority to make ex-gratia or other payments for which there is no legal liability;
b. Claims authority delegated to other organisations: to review the authority level given, the categories and value thresholds for referral to the managing agent and to exclude any authority to make ex-gratia or other payments for which there is no legal liability.

10. Resources

Human resources

10.1 Where a syndicate goes into run-off there is a risk that staff who are essential to the effective management of the run-off will leave. Accordingly, the managing agent should –

a. identify members of staff with skills, knowledge and experience that are considered essential to the effective management of the run-off;
b. take all reasonable steps to secure the ongoing services of such staff;
c. identify any additional skills and experience required;
d. take steps to secure access to such skills and experience.

10.2 The adequacy of human resources should be kept under continuous review by the managing agent during the course of the run-off.

IT systems

10.3 Managing agents should secure access to the necessary IT systems, including hardware, software and data, at the earliest opportunity. The planning for this should be included in all plans required to be prepared under these guidelines.

10.4 Managing agents should give careful consideration to whether their systems and management information are suitable for the purposes of run-off.

11. Financial management

11.1 Managing agents remain responsible for the efficient management and safeguarding of the syndicate's assets. Sound and prudent financial controls must be in place over the following –

a. non-insurance assets, liabilities and solvency;
b. cashflow;
c. premium and reinsurance credit control;
d. investment management;
e. expenses.

11.2 As soon as possible after the syndicate has entered run-off, managing agents should make a detailed assessment of the total cost of the run-off, identifying extra costs arising from the decision to cease underwriting. The assessment should be kept under continuous review and updated as appropriate. Matters to be considered include –

a. claims reserves and the potential for deterioration;
b. bad debt provisions and the potential for deterioration;
c. future reinsurance costs;
d. the costs of the run-off to expiry;
e. any other costs relating to closure of the run-off.

12. Planning & reporting

Reporting to Lloyd's

12.1 Managing agents will be required annually to submit a run-off closure plan to Lloyd's.

12.2 Managing agents will be subject to an oversight and monitoring regime appropriate to the size and risk inherent to the syndicate and /or years of account in run-off under their management. This regime will involve regular meetings with the PMD and additional reporting.

12.3 Managing agents must continue to report as usual to members. They should also consider whether additional reporting would be of value to members and, where they consider that it would, they should provide it.

13. Contacts

The contact points for all queries relating to run-off at Lloyd's are:

Steve McCann, Head of Open Years and Data Management
(email: Steve.McCann@lloyds.com; tel: 020 7327 5984)

Julia Petrusyk, Senior Manager, Open Years
(email: Julia.Petrusyk@lloyds.com; tel: 020 7327 5702).

Appendix 1 – Run-Off Closure Plan

Areas to be addressed within the annual **Run-Off Closure Plan**

This guidance is appropriate for both syndicates that have newly entered into run-off, and existing syndicates either in run-off or with a run-off account.

- **Document control sheet:** this refers to the basic document control details, e.g. document name, document owner, version control, distribution list, date of Board approval.

- **Index/table of contents**: as a minimum, covering all relevant sections and Appendices, but may be broken down into sub-sections as an aid to review.

- **Executive Summary:** this should provide a brief summary of the key areas of activity in the forthcoming 12 months and identify the relevant Board member who is responsible for the execution of the run-off plan. For existing run-offs, this should also include a synopsis of the progress to date made against the current year's plan.

- **Background:** this section should provide an understanding of the nature of the syndicate. This section is only required the first time an annual run-off plan is submitted to Lloyd's. It will include, but is not limited to, the following:

    - An overview of the business underwritten by the syndicate, by year of account with, if applicable, a schedule identifying any business which has been received from other syndicates through RITC;
    - An indication of the percentage of business led by the syndicate by business type;
    - The proportion of business that emanates from different business types e.g. third party binding authorities;
    - The syndicate's allocated capacity by open year of account;
    - A summary showing how the capacity is split between natural Names, unaligned corporate members, and aligned corporate capital by open years.

- **Review of issues that led to run-off:** this section should include both a brief commentary on the reasons for the syndicate entering into run-off, together with details of the extent to which these issues continue to affect the syndicate and what action is being undertaken to mitigate them.

- **Strategy:** this section should provide a clear picture of the agent's overall approach to the management of the run-off, and should include details of:

  - The key objectives and targets for the management of the run-off, the targets for achievement of these, and details of the measurement metrics that will be used to assess progress;
  - The overall process for achieving these key objectives, covering how progress is monitored and reported and how remedial action will be triggered in cases where targets have been or will be missed;
  - The major milestones for the coming year;
  - Any outsourcing arrangements, whether existing or proposed, and how, and to what extent, the key objectives/targets are reflected within the Service Level Agreement. Agents should also advise how they (will) monitor the performance of the outsourced function(s).

- **Closure:** this section should address the barriers preventing closure of the syndicate. These may include material claims, significant claims or reinsurance disputes, reserve instability and underwriting exposures. The Plan should include a high level indication of the strategic plans, and associated timescale, proposed for their resolution. This section should also include an indication of the agent's views on the expected closure dates for the syndicate.

  In the event it is anticipated that a Reinsurance to Close of the syndicate may take place within the next one to two years, this section should also include an outline of the agent's plans in this regard. This should incorporate a summary of the processes being put in place, with the key issues to be addressed, and an indicative timeline around these.

- **Planned activity:** in this section, the agent is required to provide a summary of their plans for the forthcoming year. This should include their key objectives across all areas of the account including, but not limited to, the following:

  - Strategy and timetable for resolving barriers to closure
  - Managing exposures
  - Reinsurance
  - Claims handling
  - Finance and credit control
  - Risk management and governance
  - Resourcing
  - Systems and data
  - Compliance with regulatory requirements

  The summary should contain sufficient information to act as a benchmark for the on-going monitoring of the syndicate operations. As such it should include specific details of the key performance measures, and any set timescales relating to these.

Appendix 2 – Run-Off Contingency Plan

Areas to be addressed within the **Run-off Contingency Plan**

1. **Document control sheet:** this refers to the basic document control details, e.g. document name, document owner, version control, distribution list, date of Board approval.

2. **Index/table of contents:** as a minimum, covering all relevant sections and Appendices, but may be broken down into sub-sections as an aid to review.

3. **Executive Summary:** this should provide an overview of the key elements of the Contingency Plan ("the Plan"). This will include reference to the basis of preparation of the Plan, and of the key assumptions made in producing the Plan. It should also contain a brief summary of the impact of the Plan, or any scenario(s) reflected within the Plan, on the syndicate results. It should also provide a high level commentary on the likely impact on the managing agency of the syndicate entering into run-off and identify an appropriate director to liaise with Lloyd's.

4. **Background:** This should provide a brief synopsis of the history of the syndicate, including type of business written, and also details of the capital support. This section should include a brief commentary on the (potential) reasons/triggers for the syndicate entering into run-off.

5. **Strategy:**
   A) This should cover the agent's proposed approach to putting the syndicate into run-off, acknowledging their obligation to protect the interests of key stakeholders, to achieve an orderly run-off and, ultimately, a reinsurance to close. In this section should be set out the key objectives in this regard, and the key strategies that the agent proposes to execute in order to meet these objectives, and to achieve an orderly run-off.

   As part of establishing the strategy, the agent will need to consider the key events that would trigger the requirement to put the Plan into action, and thus place the syndicate into run-off. A timetable of these should be included in this section, together with the activities that will be necessary at each stage.

   B) In the period prior to the syndicate entering into run-off, the key activities will largely focus on communications plans, and for the production of all relevant instructions and/or notices to all key stakeholders, including counterparties, employees and external advisers. This section should also include high level targets, and their indicative timings, for both the initial phase of the run-off, through to eventual closure.

Agents should consider carefully the timings of key activities, particularly around the entry of the syndicate into run-off. In this regard, it may be helpful to consider drawing up relevant timetables on a Day 1/Week 1/Month 1 basis.

6. **Key areas**: the Plan should include a section on each of the areas for which the managing agent has identified key objectives within the Strategy section, providing further details around how they propose to meet these objectives. TypicalIy, these areas will include the following:
   - Managing exposures
   - Reinsurance, including consideration of purchasing additional cover
   - Claims handling
   - Finance, including cashflows, liquidity, expenses and investments
   - Management and governance of the run-off, including revisions to Committee structures, management reporting requirements and performance measurement metrics
   - Resourcing requirements, including consideration of outsourcing or other third party arrangements
   - Closure.