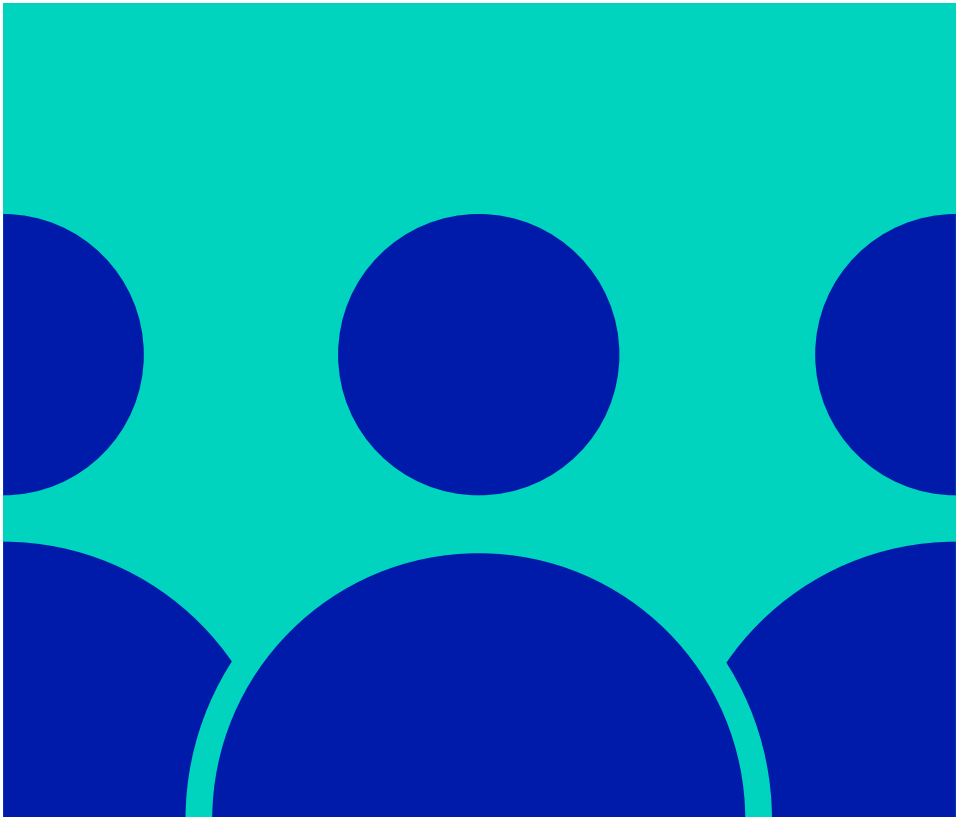


# Establishing a Special Purpose Arrangement at Lloyd's.

**A guide for applicants.**



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**This guide is for businesses who wish to establish a **Special Purpose Arrangement**, in order to partner with an existing syndicate to develop their business.**

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

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## What is a Special Purpose Arrangement (SPA)?

- A Special Purpose Arrangement (SPA) is a type of Lloyd's syndicate that is similar to a reinsurance sidecar in the Company market. A SPA is a structure created to allow investors to capitalise a portfolio of business.
- A SPA can only write a single quota share reinsurance contract of another Lloyd's syndicate, referred to as the 'host syndicate', with both syndicates under the management of the same managing agent.
- A SPA quota share reinsurance contract can provide whole account reinsurance of the host syndicate or it can cover specified classes of business. It does not have to reinsure all of the host syndicate's business.
- SPAs reinsure a single year of account but can also be re-established annually to cover additional years of account.
- The host syndicate must retain a minimum of 10% of any business it underwrites.

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## Why establish a SPA?

The SPA is a flexible model that can be used by existing market players or new entrants to the market.

SPA's have been established for a variety of reasons, including:

- **Capital management:** a means of introducing third party capital support to the host syndicate Business Plan, reinsuring the whole account or selected classes of business. This model allows the SPA capital providers to participate in the host syndicate's business without requiring the infrastructure associated with a full syndicate.
- **Capacity management:** a means for the host syndicate to secure third party capital support and thus manage exposures within its risk appetite.
- **Partnership:** a third party introduces business to the host syndicate, which is then reinsured to the SPA. The SPA may be capitalised by a third party. Such an arrangement may be a first step towards developing a standalone syndicate. Lloyd's agreement to this model does not necessarily mean Lloyd's will accept a standalone syndicate application in the future.

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## 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 criteria including:

- 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](#).

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## 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 by 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.

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## Fees and charges

- Application fee is £75,000 (VAT is not applicable)
- 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.

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## Application process

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An application has six steps.

SPA applications typically take 3-6 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 syndicate applications are processed in full confidentiality.



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## Application process

# Step 1

## Enquiry

### Contact the New Entrants team

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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 SPA proposal, and to discuss operating at Lloyd's and Lloyd's criteria for SPA 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 SPA 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.

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## Application process

# Step 2

## Triage

### Qualitative and Quantitative submission

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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 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 (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 new SPAs.

## Step 3 Business Opportunities Committee

### Detailed plan presentation

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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 should 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 each 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 the support of the Committee;
- A request for further information; or
- An explanation as to why the Committee considers your proposal does not meet the criteria for new SPAs.

## Step 4 Lloyd's Council

### Our highest governing body grants 'in-principle' approval

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If the SPA 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 new SPAs.

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 SPA, 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

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Once the SPA 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 SPA Business Plan and level of capital required.
- Securing capital and finalising the capital arrangements to support the SPA.
- Obtaining agreement for establishing any new corporate member(s).
- Preparing the draft SPA quota share contract, which will be reviewed by Lloyd's.
- Establish the necessary legal arrangements. This will include entering into an agreement with a management agent.

We anticipate that an SPA application will take approximately six to eight 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

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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 SPA quota share contract cannot be executed until this letter is received.

#### Post Permission to underwrite

In line with the host syndicate, the SPA 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 SPA to validate it is performing in line with the agreed plan.



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# Appendix

## Capital Setting and Lloyd's Standard Model

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### Calculating an SPA Solvency Capital Requirement (SCR)

Although not subject to a review against the Principles for doing business through the Making it Happen process, a SPA needs to adhere to Principles 5 relating to capital – which means that it needs Solvency II compliant internal model, which requires longer timeframes and significant resource to build. Therefore, the practice for new SPAs 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 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 accounting 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.](#)

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### Lloyd's approach to setting the ultimate SCR for an SPA

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 SPA's plan during the first year, based on the Realistic Disaster Scenario 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.

Mid-year start – part year business plan:

Where a 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 an SPA's first year SCR/ECA

Fixed:

- ECA uplift: All 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 an SPA'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 plans focussed on more volatile (e.g. catastrophe exposed) business in more volatile geographic locations

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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 syndicate, hence higher loss ratio and lower profit expectations will lead to a higher capital requirement.
- Risk Mitigation: reinsurance arrangements (e.g. 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 one premium figure.

### **Years 2 and 3 capital setting:**

You can model the second- and third-year SCR through the LSM, however, should the SPA continue into a fourth year (or transition to a full syndicate) the managing agent will need to have developed an approved Solvency II model for capital setting purposes for the SPA/syndicate.

You may also wish to review other useful resources on [Lloyd's.com](https://www.loyds.com).

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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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