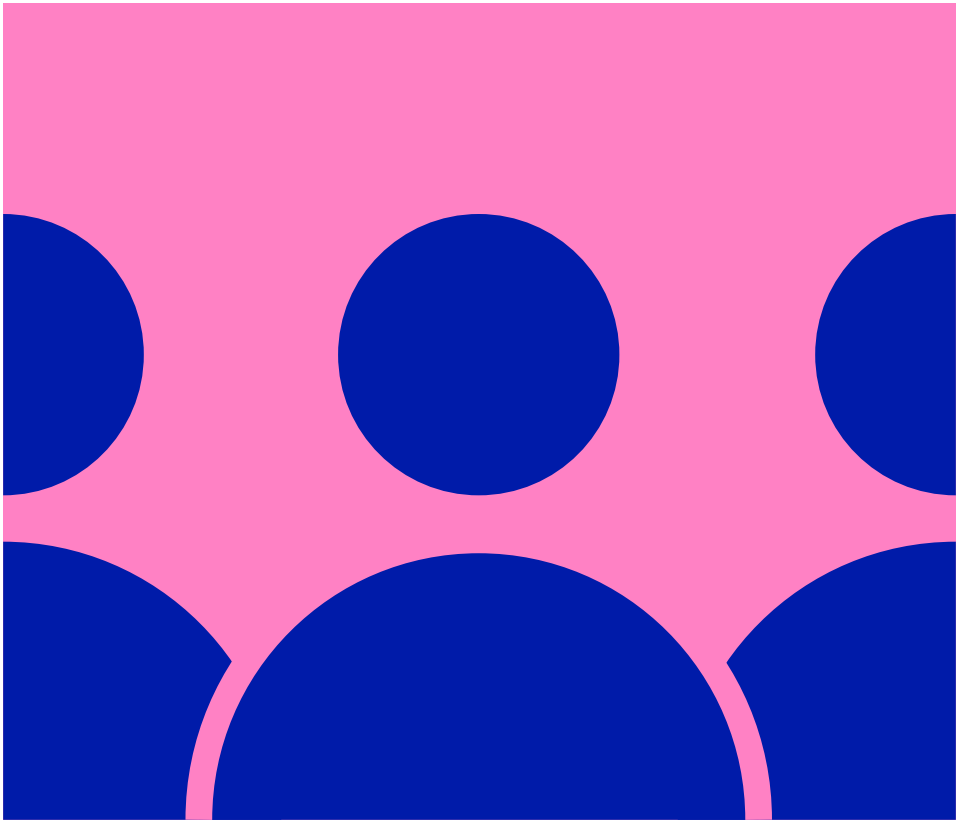
LLOYD'S

Establishing a Syndicate at Lloyd's.
A guide for applicants.



This guide is for businesses who wish to establish a Lloyd's underwriting business.

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

Contents

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

What is a Syndicate?

Syndicates are the traditional market facing business units at Lloyd's. They can be supported by one or more members of Lloyd's; the members are the insurers for their share of any risk written by the syndicate (separately, not jointly).

Why establish a syndicate at Lloyd's?

- Syndicates are usually, but not exclusively, established by existing market groups looking to access and benefit from Lloyd's brand, licence network, rating and distribution. Syndicates often start out as SIABs or SPAs before progressing to full syndicate status.
- Each syndicate can set its own appetite for risk and formulate its Business Plan to be agreed by Lloyd's.
- A syndicate, through its managing agent, arranges its own reinsurance protection and manages its exposures and claims.
- Syndicates can lead, and provide follow capacity, on subscription risks covering a wide range of classes of business although many will be specialists in particular classes.

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).

More broadly, Lloyd's will 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;
- the applicant's support for 'Future at Lloyd's' and other market wide initiatives.

You are strongly advised to read and consider the full requirements which can be found at here.

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 web site.

The role of the managing agent

All members of Lloyd's must underwrite through an agent, known 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 all 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.

Fees and charges

- Lloyd's syndicate application fee is £200,000 (VAT is not payable).
- The application fee invoice will be issued once the application has been recommended to the Council by the Business Opportunities Committee.
- Please note the application fee is non-refundable.
- Further information on charges payable by members to operate in the Lloyd's market can be found in the Triage Quantitative submission.
- We review our charges annually and every September we release a Market Bulletin confirming the charges for the following year.

Application process

An application has six steps.

A syndicate application typically takes 6-8 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 handled in full confidentiality.

Step 1
Enquiry
Contact the Lloyd's New Entrants team

Step 2
Triage
Qualitative and Quantitative assessment

Step 3
Business Opportunities Committee
Detailed plan presentation

Step 4
Lloyd's Council
Our highest governing body provides 'in-principle' approval

Step 5
Making it Happen
Deliver the operational and administrative aspects

Step 6
Permission to underwrite
Final formal approval and launch

Step 1
Enquiry
Contact the Lloyd's New Entrants team

Please contact the New Entrants team to arrange an initial discussion.

The purpose of this initial discussion is to understand the principal features of the syndicate proposal, and to discuss operating at Lloyd's and Lloyd's criteria for syndicate 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 syndicate and the geographical split of the business.
- Why Lloyd's is right for you and how you believe you will contribute to the success of the Lloyd's market.

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

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

Step 2
Triage
Qualitative and Quantitative submission

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

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

There is a weekly standing meeting of the Triage Group to ensure we can review your proposal in a timely manner. You will need to provide the completed templates at least two full working days prior to the Triage Group meeting to which we will assign to 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:

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

Step 3
Business Opportunities Committee
Detailed plan presentation

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

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

Your submission will consist of four parts:

A. The Quantitative submission - Business Plan and 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 a new syndicate.

Step 4
Lloyd's Council
Our highest governing body grants 'in-principle' approval

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

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

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

The outcome will be either:

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

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

Step 5
Making it Happen
Deliver the operational and administrative aspects

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

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

These actions include:

- Agreeing the syndicate Business Plan and the level of capital required.
- Securing capital and finalising capital arrangements to support the syndicate.
- A full review against Lloyd's Principles to ensure the proposal meets maturity expectations.
- Establishing any necessary licensing arrangements (e.g. the NAIC for US E&S or reinsurance business) and/or arrangements to underwrite via any other Lloyd's platforms such as Lloyd's Brussels, Singapore etc.
- Setting up the syndicate banking arrangements (Premium Trust Funds, situs trust funds)
- Obtaining agreement for establishing any new corporate member(s).
- Establish the necessary legal arrangements. This will include entering into a standard Manging Agents Agreement and the syndicate Active Underwriter Secondment agreement.

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

When all the Making it Happen actions are satisfactorily completed, your application will move to the final stage - Permission to Underwrite.

Step 6
Permission to underwrite
Final formal approval and launch

The Business Opportunities Committee has delegated authority to agree the final Permission to underwrite. The New Entrants team will prepare a submission to the Committee summarising the application and confirming that the requirements of the Making it Happen process have been successfully completed. This stage can usually be completed after circulation of a paper to members of the Committee, without the requirement for a meeting. Unless a member of the Committee requests further information, agreement will be confirmed within two working days. In some cases, where there are Making it Happen actions that are not fully completed, these may be addressed by the addition of conditions to the Permission to underwrite.

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

Post Permission to underwrite
The syndicates 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 syndicate to validate it is performing in line with the agreed plan.

Appendix 1
Capital Setting and Lloyd's Standard Model

Calculating a syndicate's Solvency Capital Requirement (SCR)

New syndicates are subject to a review against the Principles for doing business through the Making it Happen process.

A syndicate therefore needs to adhere to Principle 5 relating to Capital – which means that it needs a Solvency II compliant internal model, which requires longer timeframes and significant resource to build. Therefore, the practice for new syndicates is to set their capital using Lloyd's Standard Model (LSM) until they have had their internal model approved.

The Lloyd's Standard Model is a spreadsheet model which calculates the capital requirement for the 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 3 years. This can be extended in some circumstances, e.g. if the first year of account was a partial year. Syndicates cannot normally apply for internal model approval within less than one year of account.

Click here for more information

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

Year 1 capital setting:

The LSM inputs include:
- The first year SBF set out by Lloyd's risk code. The net claims are used as exposures for the insurance risk calculation, but expected profit is also used as an offset in the capital calculation.
- A preliminary indication of the catastrophe risk within the proposed syndicate'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 and 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 a syndicate's first year SCR/Economic Capital Assessment

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

Years 2 and 3 capital setting:

You can model the second-and-third year SCR through the LSM, however, should the syndicate 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 syndicate.

You may also wish to review other useful resources on Lloyd's.com.

Disclaimer and Copyright

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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3. This Guide provides information on Lloyd's and how to get authorisation to form a new underwriting business here. It does not describe every aspect of how Lloyd's makes decisions about applications. Lloyd's will consider all applications on their own merits.

4. Neither the Society of Lloyd's, the Council, any other Committee or Board constituted by the Society of Lloyd's or the Council, nor any of their respective members, officers and advisors, accepts any responsibility or liability for any loss to any person who acts or does not act as a result of any statement, fact, figure or expression of belief in this Guide.

5. Before you apply, you should make sure you understand Lloyd's, and the implications of participating in the Lloyd's market. You should understand that risk is the nature of insurance business and is inherent in the business underwritten at Lloyd's.

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