

LLOYD'S

# Developing a new Lloyd's underwriting business

June 2020

# Contents

<b>1</b>	<b>Introduction</b>	<b>03</b>	<b>7</b>	<b>Establishing your own managing agent</b>	<b>21</b>
1.1	Lloyd's value proposition	04	<b>8</b>	<b>Calculating a new Syndicate's Solvency Capital Requirement</b>	<b>24</b>
<b>2</b>	<b>Starting a Business at Lloyd's</b>	<b>05</b>	<b>9</b>	<b>Lloyd's and Underwriting Agent's Fees</b>	<b>27</b>
2.1	Underwriting at Lloyd's – What are the options	05		<b>Appendix</b>	
2.2	Starting a business at Lloyd's	05		Appendix 1: Syndicate application framework	29
2.3	Setting up a new member	06		Appendix 2: Syndicate in a box application framework	31
2.4	SPA, Syndicate in a box (SIAB), and syndicate options	06		Appendix 3: Managing Agent application framework	33
2.5	The Options – Pre Application	07		Appendix 4: Useful Websites	35
2.6	People, Plan and Capital	07		<b>Glossary</b>	
<b>3</b>	<b>Establishing a Special Purpose Arrangement - Attribute</b>	<b>09</b>		Words and Phrases highlighted thus are explained in the glossary	36
3.1	SPA New Entrant Assessment criteria	09		<b>Disclaimer</b>	<b>37</b>
<b>4</b>	<b>Establishing a Syndicate in a Box (SIAB)</b>	<b>11</b>			
4.1	Assessment criteria	13			
4.2	How to apply	14			
<b>5</b>	<b>Establishing your own syndicate</b>	<b>18</b>			
5.1	Attributes of a new Lloyd's syndicate	18			
5.2	Syndicate assessment criteria	18			
<b>6</b>	<b>SPA, SIAB and Syndicate Management</b>	<b>21</b>			

# 1 Introduction

Lloyd's is the world's specialist (re)insurance market. Our ability to attract high quality business propositions is the key to market regeneration and to maintaining Lloyd's pre-eminent position. This guide is intended to help you understand the different market entry options, what we are looking for in a managing agent, syndicate, syndicate in a box or special purpose arrangement application, and how the application frameworks are applied.

This guide covers:

- The benefits of starting a business at Lloyd's as a minimum.
- The different entry options
- The application process for each option
- Syndicate and member level capital setting
- A summary of the principal Lloyd's costs

Our website ([www.lloyds.com](http://www.lloyds.com)) provides further information, including:

- How Lloyd's works
- The Market structure
- Governance at Lloyd's
- How the Market operates
- The Minimum Standards that are applied to all Lloyd's businesses

Appendix 4 of this guide sets out links to some of the relevant pages on our website and we strongly encourage you to read through this material

The new entrant framework is owned by the Business Opportunities Committee (BOC). The BOC is a sub-committee of Lloyd's Executive, chaired by the Director of Performance Management. The BOC is responsible for the review and, where appropriate, escalation of proposals for the Council's consideration and for the granting of formal permissions. The Council does not agree Syndicate Underwriting Business Plans – this aspect is owned by the Capital & Planning Group.

Our Business Development Team (New Entrants) is happy to answer any questions you have about the application process. Please send any queries to the team email address: [NewEntrants@lloyds.com](mailto:NewEntrants@lloyds.com) or get in touch directly:

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The following acronyms are used in this guide. Items in blue are defined in the glossary at the end of the guide

**BOC:** Business Opportunities Committee

**CCK:** Capital Calculation Kernel

**CPG:** Capital & Planning Group

**DPP:** Detailed Plan Presentation

**ECA:** Economic Capital Assessment

**FAL:** Funds at Lloyd's

**HLP:** High Level Pitch

**RDS:** Realistic Disaster Scenario

**RITC:** Reinsurance to Close

**SBF:** Syndicate Business Forecast

**SCR:** Solvency Capital Requirement

**SIAB:** Syndicate in a box

**SPA:** Special Purpose Arrangement

**ULR:** Ultimate Loss Ratio

**YOA:** Year of Account or Underwriting Year of account

## 1.1 Lloyd's value proposition

Lloyd's is a unique marketplace where syndicates can underwrite risks on highly-rated paper through an extensive global licence network as part of the world's foremost commercial insurance brand. Lloyd's has a proven track record of providing innovative entrepreneurs with the platform to serve their customers and grow their businesses. For more information on the benefits of establishing a business at Lloyd's please see here: [https://www.lloyds.com/about-lloyds/value\\_proposition\\_insurer](https://www.lloyds.com/about-lloyds/value_proposition_insurer)

## 2 Starting a business at Lloyd's

### 2.1 Underwriting at Lloyd's – What are the options?



### 2.2 Starting a business at Lloyd's

There are a number of options for underwriting at Lloyd's:

1. Supporting an existing syndicate through a new corporate member
2. Establishing a Special Purpose Arrangement under the management of a managing agent
3. Establishing a syndicate in a box under the management of a managing agent
4. Establishing your own syndicate under the management of a managing agent
5. Establishing your own managing agent

It is not necessary to establish every option. For a well-developed and experienced group, it might be possible to start at the 'establishing your own syndicate' point. Where you begin the journey will depend on a number of factors including:

- Market knowledge and experience
- Availability of business
- Availability of capital
- Availability of people
- Risk appetite

In today's regulatory and commercial environment, establishing a new syndicate and a new managing agent at the same time presents a substantial challenge that carries a high execution risk. For this reason, most applications prefer to use a [third party managing agent](#) in order to focus on the syndicate development, and in some cases to secure a fuller understanding of the role and operation of a managing agent – after which some seek to establish their own managing agent.

## 2.3 Setting up a new member

Establishing a new member is a usual step to developing any Lloyd's business. A new member can participate in one or more existing syndicates, or in a new syndicate. You should allow six weeks to process an application for a new member. You can apply to become a new member at any time of the year.

If you set up a new member to support an existing syndicate, you cannot start underwriting until the beginning of the following underwriting year of account. If the member is supporting a new syndicate, it can start underwriting at any time of the year.

The application process includes comprehensive due diligence on the member, its directors (or members/partners if a Limited Liability Partnership/Scottish Limited Partnership) and on the member's owners and controllers. This due diligence includes detailed Fitness & Propriety and Money Laundering checks and you should be prepared to provide all necessary supporting documentation and evidence as may be requested. This may include: details of the entire ownership and control chain, information on source of wealth, and verification of identity for key individuals. All evidence has to come from a suitable source. It can be an iterative process and we are unable to proceed until the due diligence is complete, so early and prompt engagement is beneficial.

Applicants should note that where it is proposed that a new member is supported by third party funds (whether the third party is associated with the member's group or is unconnected), Lloyd's will also need to carry out the same level of due diligence on the third party FAL provider (TPFP), its directors and on the member's owners and controllers of the TPFP.

The establishment, ongoing requirements and obligations of a member are complex, and in many aspects, unique to Lloyd's. It is a requirement that members appoint a members' agent or advisor to provide guidance and assistance.

## 2.4 SPA, Syndicate in a box (SIAB) and Syndicate options

For each option, this next section summarises:

- The **attributes** of what each option offers you
- Lloyd's **assessment** criteria for an application
- The **application framework** and guidance
- Lloyd's approach to **capital setting**
- Lloyd's **fees** and charges
- A high level **summary of the "application framework"**

## 2.5 The Options – Pre Application

The new entrant application starts with a discussion with our Business Development Team (New Entrants). We strongly encourage you to contact us before you commit time, money and resources to any proposal. This will help avoid any misunderstandings and unnecessary costs.

Through this conversation we will explore such aspects as:

- The opportunity
- Your background and strategy for Lloyd's
- The size, structure and aims of your proposed business
- The classes of insurance and territories you want to be involved in
- Your underwriting and management resources
- Your proposed managing agent (if contemplating a new syndicate)
- Your sources of capital
- How your proposal will add value to Lloyd's overall offering
- InsurTech / Innovation

The purpose of this initial discussion is to validate the opportunity; we will advise in writing if we take the view the proposal will not be progressed. If there is the prospect of developing the proposal, we will discuss with you the most appropriate syndicate option and confirm next steps. We fully recognise and respect the need for confidentiality. It will be necessary for a wider group of Lloyd's staff to be involved as proposals progress, however this won't be until an application is quite well developed.

## 2.6 People, Plan and Capital:

For all new syndicate applications (SPA, SIAB, traditional syndicate) we will require a business rationale and narrative. The key elements to any plan or rationale are the following:

**People:** For a syndicate or SIAB, you should have underwriters who can demonstrate strong 'underwriting discipline'. This means a good understanding of the risks involved, as well as an excellent track record. You also need adequate and skilled claims and wordings resources.

**Plan:** Your business plan should deliver consistent results and add value to Lloyd's overall offering. You should also have proper systems and controls in place to minimise the risk of loss. Please note that while applicants are asked to submit a 3 year plan, any Lloyd's approval is for the year 1 plan only. For syndicates and SPAs, the business plan for the 2<sup>nd</sup> and 3<sup>rd</sup> years will be reviewed through the usual annual business planning process, and may differ from an applicant's original 3 year vision.

**Capital:** You will need to demonstrate how you might bring new capital into Lloyd's, and how the capital will support prospective growth through the early years of the syndicate's development.

### Comparison of requirements for Syndicates, Syndicate in a box and SPAs

Requirements	Syndicate in a box	Syndicate	SPA
<b>Transparent set of qualifying criteria</b>			
Profitable	✓	✓	✓
Expense ratio	<35% by year three	c.40%	
Accretive or Innovative	✓	✓	
Developing business: GWP<£100m in year 1	✓		
Box space permitted		✓	
Limited peak perils* (LCM5) exposure	✓		
Short tail (unless historical track record of long tail)	✓		
<b>Entry process</b>			
Fees	£100k	£200k	£75k
Application duration	3 months	6-8 months	3-6 months
<b>Efficient rules of participation</b>			
<b>Capital setting:</b>			
New entrant capital uplift		✓	
Market average loss ratios mandated		✓	✓
Annualised premium		✓	✓
Internal model required	After graduation to syndicate	Not for two years	
Enhanced Central Fund contributions (New members)	Deferred until years 4-6	✓	✓
<b>Oversight</b>			
Flexible line size dispensations	✓		
Optimised reporting	✓		
Streamlined business plan submission	✓		
<b>Annual review lifecycle</b>			
Timebound	✓		
Fast fail assessment with run off plans	✓		

\*Peak perils are currently: US/Caribbean Wind, US/Canadian Earthquake, Japanese Earthquake, Japanese Typhoon and European Wind.



## 3 Establishing a Special Purpose Arrangement (“SPA”) - Attributes

A Special Purpose Arrangement is a specific type of Lloyd’s syndicate. It writes a single quota share reinsurance contract of another Lloyd’s syndicate, known as the ‘host syndicate’. Both syndicates are managed by the same Lloyd’s managing agent.

Setting up an SPA gives you access to Lloyd’s business. You also have the possibility of developing it into a ‘stand-alone’, or ‘traditional’ syndicate in the future, which proposal would be subject to the full syndicate application framework.

With an SPA, you do not have to reinsure all of the host syndicate’s business. An SPA Quota Share reinsurance contract can cover specified classes of business, and it can be specific to one or more underwriting years of account. For example a contract could exclude exposure to business the host syndicate has underwritten in previous years of account that is assumed through the [Reinsurance to Close](#) process.

An SPA can reinsure business that you may have introduced to the host syndicate as part of the overall arrangement. We do, however, expect that the host syndicate retains an absolute minimum of 10% of that business to ensure alignment of interests.

### 3.1 SPA New Entrant Assessment Criteria

When we assess an SPA proposal, we look at how viable that proposal is, and how it will add value to the Lloyd’s market. Our principal considerations are developing the host syndicate’s business plan and management. At an early stage in our discussions, we will ask you to explain why the managing agent’s board would prefer to set up an SPA, and what alternatives they have considered.

An SPA reinsures the host syndicate’s business only. It does not underwrite any other business. Therefore, if your proposal to set up an SPA would affect the host syndicate’s business plan, we will need to challenge any assumptions in your proposal. We will also look to confirm that all the relevant management requirements (e.g. complying with Lloyd’s Minimum Standards) are in place and effective in the host syndicate.

Here are the main elements we look at in an SPA proposal:

- The nature and quality of the host syndicate business plan
- The rationale behind the SPA business plan
- The classes to be underwritten and in what geographies
- How new business or premium will be derived
- Any impact on compliance with Lloyd’s current Franchise Guidelines
- Assurance that the host syndicate managing agent is not the subject of specific concerns or review by Lloyd’s or the FCA/PRA (other than a timetabled periodic assessment visit) and that the host syndicate is not subject to any business plan or capital constraint
- The managing agent that will manage the SPA

If you are contemplating the SPA option, a separate, more detailed SPA guide is available via the ‘Starting a new business’ page on the Lloyd’s website.

### SPA Application process:

The SPA application process is currently similar to the Syndicate application with a High Level Pitch and Detailed Plan presentation to Business Opportunities Committee.

<b>Stage 1:</b> Enquiry – Proof of concept
<b>Stage 2:</b> High Level Pitch (HLP)
<b>Stage 2a:</b> Model indicative capital requirement
<b>Stage 3:</b> Detailed Plan presentation to the BOC
<b>Stage 3a:</b> CPG reviews initial Business (underwriting) plan
<b>Stage 3b:</b> Model indicative capital requirement
<b>Stage 4:</b> Lloyd's seek 'in principle' approval
<b>Stage 5:</b> Making it Happen (includes a risk based approach to compliance with Lloyd's Minimum Standards)
<b>Stage 6a:</b> Business plan and SCR/ECA (capital) agreement – CPG
<b>Stage 6b:</b> Agree output of Minimum Standards review – Oversight Manager
<b>Stage 6c:</b> Formal approval from the BOC
<b>Stage 7:</b> Post approval – 'High touch' status

## 4 Establishing a Syndicate in a Box (SIAB)

### What is a syndicate in a box

Syndicate in a box is a specific syndicate model designed to encourage new, accretive and innovative business and talent to come to Lloyd's.

Syndicates in a box have different participation and entry criteria compared to traditional syndicates to make it easier and more capital-efficient for smaller entrepreneurial businesses to enter and trade at Lloyd's for their first three years. Syndicate in a box:

- Creates an environment that facilitates testing and learning, with fast success or failure.
- Balances quicker, more transparent entry processes and proportionate capital requirements with constraints that limit the potential downside for the market.
- Applies the same regulatory responsibilities and Lloyd's minimum standards as for other syndicates.
- Operate to the same standard of performance management and oversight as for other syndicates.

Lloyd's Council's appetite for syndicates in a box will be reviewed annually. In 2020, up to 2% of total planned market GWP can be written through syndicates in a box.

### Attributes of a syndicate in a box

1. A way of entering the market to prove a business proposition over three years – *to give applicants the best chance of success*
2. A transparent set of qualifying criteria – *so that applicants understand whether they fit*
3. A clear and streamlined entry process – *to enable three-month approval*
4. Specific rules of participation – *to balance opportunities and constraints (see below)*
5. Quarterly review and annual assessment carried out by Lloyd's – *to ensure that the business remains accretive or innovative and profitable*
6. Access to the Lloyd's services hub and integration with other Future at Lloyd's solutions – *to enable them to operate efficiently*

### Life Cycle

Syndicates in a box can initially only enter the Lloyd's market for a fixed period of three years, after which they have three options:

1. Reapply to continue as a syndicate in a box.
2. Graduate to a "full" syndicate.
3. Cease trading if annual performance conditions / success criteria are not met. Syndicates in a box will agree an exit plan as part of the entry process.

## Different oversight for SIABs

The constraints on what business can be written, their smaller scale and the rules surrounding their underwriting permission, will limit the risk that syndicates in a box pose. This means Lloyd's can apply oversight and underwriting rules proportionate to the risk posed. This will reduce the initial capital requirement, administrative burden and operating costs, maximising their chance of success, without reducing Lloyd's market standards.

— *Flexibility in line size dispensations.* Lloyd's will consider line sizes using a risk-based approach commensurate with their lower premium size.

*Optimised reporting* proportionate to risk. Syndicates in a box will be restricted by what they can write, meaning that Lloyd's can take a more proportionate view of their reporting. SIAB will not be required to complete Q1 and Q3 reports for QMA, QMB and PMDR as well as not having to submit LCR returns (as capital is based on model) or full RDS/ LCM returns (provided exposures are minimal). Lloyd's is continuing to review the reporting framework with the medium and long terms aim of further reducing the reporting burden by linking it with the Future at Lloyd's platform / data workstreams. SIAB will still be required to provide key performance metrics from their syndicate board packs. This will allow Lloyd's to monitor performance without additional reporting requirements upon the SIAB. See table below for SIAB reporting differences vs. a standard syndicate.

	Report	Current	SIAB
Finance	LCR <sup>1</sup>	Annual	-
	Model Change Template <sup>1</sup>	Quarterly	-
	Standard Formula SCR <sup>1</sup>	Annual	-
	Quarterly Monitoring Return A (QMA)	Quarterly	Half Yearly
PMD	Quarterly Monitoring Return B (QMB)	Quarterly	Half Yearly
	Performance Management Data Return (PMDR)	Bi Monthly	Half Yearly
	Realistic disaster scenario (RDS) <sup>2</sup>	Annual	-
	Realistic Disaster Scenario Light (RDL) <sup>2</sup>	Annual	-
	Lloyd's Catastrophe Model (LCM) forecast data <sup>2</sup>	Annual	-
	Catastrophe-Risk Sensitivity Test and LCM-LCR Analysis of Change Data <sup>2</sup>	Annual	-
	Lloyd's Catastrophe Model (LCM5) data <sup>3</sup>	Quarterly	-

<sup>1</sup> where Lloyd's Benchmark Model is used

<sup>2</sup> where de minimis threshold is met

<sup>3</sup> where no LCM5 business written

- *More streamlined annual business plan submission.* If there is no material deviation from the initial three-year plan in year one, business plans for years two and three will be approved without further challenge.
- *Syndicates in a box will operate remotely without box space in the Lloyd's building.* This will allow syndicates in a box to access diverse underwriting talent, get closer to their customers and reduce operating costs

#### 4.1 Assessment Criteria

To participate in the Lloyd's market as a syndicate in a box, new entrants must meet specific criteria:

- **Profitable:** By the end of year three at the latest, net combined ratio for syndicates in a box must be <100% and net expense ratio must be <35%.
- **Accretive or innovative:** Syndicates in a box must be accretive and/ or innovative to Lloyd's. (where accretive means enhancing the Lloyd's franchise by introducing new business and/or distribution and/or geographical opportunities, and innovative means new products, services, or methods of distribution).
- **Developing:** Syndicates in a box should aspire to become a full syndicate and must start with GWP not exceeding £100m in their first year (to limit the risk to the market).
- **Covering limited types of business:** Syndicates in a box should have little or no exposure to Lloyd's peak perils (currently US/Caribbean Wind, US/Canadian Earthquake, Japanese Earthquake, Japanese Typhoon and European Wind).
- **Shorter tail risks for new businesses:** This will enable success to be judged within three years. Inclusion of longer tail business may be considered where there is evidence of a profitable track record.

## 4.2 How to apply

### Pre-application

A new entrant application starts with a discussion with our Business Development Team (New Entrants). We strongly encourage you to contact us before you commit time, money and resources to any proposal. This will help avoid any misunderstandings and unnecessary costs.

In addition to the standard pre-application conversation we ask how your proposal fits with the syndicate in a box assessment criteria.

There is a template to provide information for this initial discussion, including a high level summary of the proposal.

The purpose of this initial discussion is to validate the opportunity, and we will assess against the SIAB criteria and determine if the proposal can follow this route. We will advise in writing if we take the view the proposal will not be progressed. If there is the prospect of developing the proposal, we will discuss with you to confirm next steps, which will include partnering with a Lloyd's Managing Agent. We fully recognise and respect the need for confidentiality in all new syndicate applications.

Lloyd's commits to a 3 month review process for SIABs once a full submission has been received via the managing agent.

Once the application is fully approved Lloyd's will send a formal Permission to Underwrite letter. Syndicates cannot quote or bind risks until this letter is received. The letter will stipulate the start date for the syndicate to incept policies. Syndicates usually require some time between the Permissions letter and start date of the syndicate to allow them to embed processes, arrange reinsurance and start to offer promised lines. Syndicates should consider this when submitting their applications.

### Submission

The application process for SIAB has been streamlined compared to full syndicate applications with an emphasis on data submissions once we have confirmed the SIAB criteria are met. By receiving a full data pack early in the process, Lloyd's can produce an indicative capital number and an assessment on the business plan in a more timely fashion. As SIAB criteria are well known and understood, then the internal review will be easier and therefore quicker. Once it has been agreed that your proposal can progress as a syndicate in a box, we will provide you with a Syndicate number to enable you to submit your data pack.

#### The data pack includes:

1. Syndicate Plan narrative [template](#) including
  - a. Rationale
  - b. Execution of plan – People, plan and capital
  - c. Target business
  - d. Profitability
  - e. Historic performance

- f. Risk appetite (line size and catastrophe),
  - g. Success criteria for assessment and
  - h. Exit plan
2. Formal syndicate business forecast submitted via market data collections system [MDC](#) (includes Underwriting Year P&L, Class split, Line sizes, Reinsurance, premium phasing, expected lapse & Churn and rate changes).
  3. 3 year trajectory for technical account and COB split [spreadsheet](#)
  4. LCM simulations if there is a material level of cat exposure e.g. > 20% for 1/200 cat risk as % of SCR. [guidance](#)
  5. Historical performance data to justify GULR in the SBF (where available) [3 year spreadsheet](#)

We recognise that completion of a full data pack (particularly the SBF on the MDC system) is a significant time investment on the part of the Managing Agent and the SIAB applicant so the initial discussion with the New Entrants team to decide this route is key.

Minimum standards – SIAB will also not be required to complete a full minimum standards review with their syndicate application. Managing Agent Boards already provide an annual attestation that they are compliant with all minimum standards; to assess the Syndicate in a Box compliance with minimum standards; Lloyd's will rely on the latest attestation of the Managing Agent.

The data pack should be submitted via [secure store](#) and [MDC](#)

We will confirm receipt of the data pack within 24 hours and will highlight any missing items at this point. As soon as your data pack has been submitted, we will start our review and commit to delivering an outcome within 3 months – if the applicant will commit to turning around any further requests for information within 3 working days.

The syndicate will also need to submit applications for

- Premium trust funds and bank accounts - contact Xchanging [SUST@Xchanging.com](mailto:SUST@Xchanging.com)
- NAIC codes (if applicable) [https://content.naic.org/cmte\\_c\\_surplus\\_lines\\_wg.htm?tab\\_3#annual\\_filings](https://content.naic.org/cmte_c_surplus_lines_wg.htm?tab_3#annual_filings)
- Member <https://www.lloyds.com/market-resources/market-services/useful-information>

These are key elements of the making it happen phase and due to the accelerated timeline, will need to be started shortly after the data pack submission and continue concurrently as the review progresses.

The internal review of a new business plan and capital assessment should involve limited teams within Lloyd's. The Lloyd's New Entrants team will liaise as necessary to coordinate the review.

During the review and approve stage of your application the following steps will be followed:

- Lloyd's reviews the plan and raises any queries.
- Lloyd's runs internal benchmark capital model and models an indicative capital figure. The output will be shared with the applicant
- There may be a requirement to resubmit the SBF at this point, but our internal processes will continue.
- BOC will review the proposal to confirm the application can progress

- BOC / Lloyd's Council will give "in principle" agreement and Managing Agents will be informed of next steps which are the "Making it Happen" process.

### **Making it Happen**

This is the finalisation of the application once it has "in principle" agreement from BOC / Lloyd's Council. Key actions are to:

- Finalise the establishment of the SIAB premium trust fund (PTF) and bank accounts
- Confirm the capital arrangements to support the SIAB
- Complete any new corporate member applications
- Arrange for the Funds at Lloyd's from your capital provider(s) to be lodged with Lloyd's.
- To agree the success criteria against which the SIAB performance will be measured.

At the end of this stage BOC considers the development/completion of the various Making it Happen actions with a view to granting formal Permission to Underwrite.

### **Post Approval**

We will regularly review how your business is performing against your business plan and the agreed SIAB success criteria.

### **Quarterly review and annual assessment carried out by Lloyd's**

The syndicate in a box solution includes quarterly reviews and annual assessments for monitoring and support. The Performance Management Directorate will be responsible for this monitoring and support, and for ensuring that standards are being maintained. At the outset, each syndicate in a box will agree with Lloyd's business success criteria each year, which will include:

- A path to profitability (net combined operating ratio of <100% by at least year three).
- Net expense ratio <35% by year three.
- Continued writing of accretive and/or innovative business.

If not met, the syndicate in a box's underwriting Permissions will be reviewed and the SIAB may be placed into run-off.

SIAB will provide quarterly metrics as an extract from their Board packs to ensure that they are performing in line with their plan. These metrics should include

- Premium development: by class of business, territory and distribution channel
- GULR development: split by attritional, large and catastrophe
- Reinsurance spend and recovery quarterly
- Split of expense development: both acquisition and administration costs
- Aggregate exposures compared to plan
- Price adequacy and rate changes



**SIAB application framework** (to be completed within 3 months from the data pack provision).

The New Entrants team will provide a personalised syndicate timeline post submission of a “data pack”

**Pre-Application: - Stage 1:** Enquiry - Initial discussion with New Entrants team at Lloyd’s and assessment against SIAB criteria

**Pre-Application: - Stage 2:** Decision to follow SIAB path and invitation from Lloyd’s to formally apply

**Submission: – Stage 3:** SIAB to agree terms with Managing Agent / submit “data pack” under new SIAB syndicate number

**Submission: – Stage 4:** Detailed “Data Pack” to be provided to Lloyd’s – 90 day process starts

**Lloyd’s Review: - Stage 5:** Lloyd’s review plan, run internal benchmark capital model and model indicative capital figure

**Lloyd’s Review: - Stage 6:** Lloyd’s provide feedback to the SIAB on Plan and provide the indicative capital figure

**Lloyd’s Review: - Stage 7:** Lloyd’s Business Opportunities Committee / Council reviews the application. Consider granting “in principle” approval

**Making it Happen: – Stage 8:** Making it Happen

**Formal approval: -** “Permission to Underwrite” letter

## 5 Establishing your own syndicate

Working with a managing agent, establishing a syndicate, in addition to a new member, allows you to underwrite a business plan that is tailored to your strategy, resources and business objectives. The syndicate may be a development of an SPA arrangement or a graduation of a syndicate in a box or a brand new Lloyd's venture. Whatever the background to the proposal, Lloyd's will apply the usual detailed approach to our assessment and review.

### 5.1 Attributes of a new Lloyd's syndicate

We consider each application on its individual merits as well as in the context of our wider management of the market. You will need to demonstrate how your proposal will add value to the market as a whole.

Here are some ways you can add value at Lloyd's:

- Developing a new specialist business
- Sourcing business from new territories
- Introducing a new class of business, or business written in a new innovative way
- Meeting unmet demand for existing profitable business for which Lloyd's has the appetite
- Introducing or retaining strong market lead underwriters or underwriting teams with a demonstrably profitable track record
- Adding global diversification to Lloyd's capital base
- Innovation (eg in terms of product or distribution)

### 5.2 Syndicate assessment criteria:

We assess submissions for new syndicates against the following criteria. However, each new proposal will inevitably introduce other elements that we will need to consider on an annual basis.

#### The syndicate proposition

- Why Lloyd's?
- What is your strategy and rationale behind the proposal?
- Does your business plan comply with Franchise Guidelines?
- How do you propose to meet Lloyd's Minimum Standards?
- How will you deliver operational and expense efficiencies?
- How will you adopt the Market modernisation deliverables to your business?

### **The syndicate business plan**

- Will your business plan deliver consistent underwriting returns?
- Which classes of business will you underwrite?
- What is your track record for underwriting these classes?
- Which territories will you underwrite in?
- What experience do you have of underwriting within these territories?
- How will business come into your syndicate – what's your distribution model?

### **Your underwriting and other resources**

- How experienced is your senior management team?
- What is their expertise in the business classes you will underwrite?
- Does your underwriting team have a successful track record in the classes you will underwrite?
- What is your reputation?
- How will you manage the business?
- Have you planned sufficient resources?
- What resources will be in place at your proposed start date?
- Are you proposing to access wider group resources to insource certain functions?
- If so, what are these and how will these resources be formally allocated to the Lloyd's business?

### **Your underwriting capital**

- What sources of capital will you access to support your business for the first three years or more?
- What is the nature of this capital – wholly supported by an existing group (an aligned syndicate) or by a mix of your own capital and other third party members?

### **Your commitment to our principles**

Do you understand how Lloyd's performance management oversight works and are you comfortable subscribing to it?

## Syndicate Application Framework

The new syndicate will be subject to review by Business Opportunities Committee and will have to present a High Level Pitch to this group detailing the rationale and content of their business plan.

<b>Stage 1:</b> Enquiry – Proof of concept
<b>Stage 2:</b> High Level Pitch (HLP)
<b>Stage 2a:</b> Model indicative capital requirement
<b>Stage 3:</b> Detailed Plan presentation to the BOC
<b>Stage 3a:</b> CPG reviews initial Business (underwriting) plan
<b>Stage 3b:</b> Model indicative capital requirement
<b>Stage 4:</b> Lloyd's seek 'in principle' approval from the Lloyd's Council
<b>Stage 5:</b> Making it Happen (includes thorough review of compliance with Lloyd's Minimum Standards)
<b>Stage 6a:</b> Business plan and SCR/ECA (capital) agreement – CPG
<b>Stage 6b:</b> Agree output of Minimum Standards review – Oversight Manager
<b>Stage 6c:</b> Formal approval from the BOC
<b>Stage 7:</b> Post approval – 'High touch' status

## 6 SPA, SIAB and Syndicate Management

**Managing the syndicate or SIAB:** Every syndicate/ SIAB has to be managed by an approved Lloyd's managing agent. If you decide not to set up your own managing agent, you can contract with an existing managing agent to manage your new syndicate for you under a third party management arrangement. Managing agents that provide this service are often referred to as [Third Party managing agents](#).

Using a [Third Party managing agent](#) helps to minimise the risk of setting up a new business. It means you can develop your new syndicate/ SIAB without the extra commitment or distraction of building a new managing agent at the same time. This path is increasingly the preferred option, both for start-up businesses and also for existing insurers wanting to enter the Lloyd's market. Once you've spent time operating within Lloyd's, you may then decide to set up your own managing agent. There is no set timeframe for this however we would anticipate you operating under the third party managing agent for three years.

If you use a [Third Party managing agent](#), it is important from the outset that you reach a clear agreement with them, setting out your aims and expectations, responsibilities and rights. If you would like to find out more about [Third Party managing agents](#), we can give you details of the managing agents who provide these services.

All new syndicate applications will need to demonstrate that they have policies and procedures in place to start up to meet Lloyd's broad range of Minimum Standards. Applicants should not underestimate the resources needed to deliver against this critical aspect.

## 7 Establishing your own managing agent

All managing agents are UK registered companies that are regulated by the PRA/FCA as well as by Lloyd's and are responsible for all aspects of operating and overseeing one or more syndicates. Applications to Lloyd's and the PRA/FCA are usually made concurrently.

It is possible to establish a member, syndicate and managing agent (the 'integrated Lloyd's Vehicle', or ILV) from the outset, however this carries a higher execution risk and very few businesses now choose to do this. It is far more common for groups to establish the Lloyd's underwriting platform (syndicate/ SIAB) first, and then subsequently establish their own managing agent that will, when approved, assume the management of the syndicate.

Owning your own managing agent provides direct and immediate control and oversight of your Lloyd's underwriting business. However, all managing agents must at all times comply with all business planning, capital and Minimum Standards requirements.

Setting up a managing agent requires knowledge, resources and expertise. You need to be able to demonstrate that:

- You have an established underwriting infrastructure
- Your managing agent's board has the experience to operate the business
- You have systems and resources in place to control the managing agent and make it a financially viable business in its own right
- Your managing agent will structure the fees it charges syndicates in a way which will support its ongoing solvency and liquidity

### **Attributes of a new managing agent**

Managing agents must meet Lloyd's Minimum Standards. Your managing agent needs to have an effective board with:

- A clear division of responsibilities
- A balance of executive and non-executive directors, with emphasis on independence

Your managing agent's board is likely to include:

- An independent chairman
- A chief executive officer
- A chief underwriting officer (who may also be the syndicate's Active Underwriter)
- A finance director
- A director of risk/compliance
- An operations director
- At least two further independent non-executive directors
- Group non-executive directors as may be relevant

For a managing agent, you must have the right management to provide governance and oversight to the underwriting business.

We believe setting up a managing agent is an appropriate step for participants that have Lloyd's experience. It is not usually suitable for a new (syndicate / SIAB) participant entering the market.

All new managing agent applications will need to demonstrate that they have policies and procedures in place at start up to meet Lloyd's Minimum Standards. Applicants should not underestimate the resources needed to deliver against this very important aspect.

### **Managing agent – Regulatory capital**

A managing agent (MA) must have, at all times minimum qualifying capital of £400,000, however the MA must also keep to a minimum net asset requirement. This is based on the volume of business written by the syndicate(s) the MA manages, and a multiple of the normal operating expenses.

You will need to show – with the help of appropriate financial forecasts – that you will be able to maintain these requirements at all times.

## Managing Agent Application Process

<b>Stage 1:</b> Enquiry – Proof of concept
<b>Stage 2:</b> High Level Pitch (HLP)
<b>Stage 3:</b> Detailed Plan Presentation to the BOC
<b>Stage 4:</b> Lloyd's seek 'in principle' approval
<b>Stage 5:</b> Making it Happen (includes thorough review of compliance with Lloyd's Minimum Standards)
<b>Stage 6a:</b> Agree output of Minimum Standards review – Oversight Manager
<b>Stage 6b:</b> Formal approval from the BOC (and the PRA/FCA)
<b>Stage 7:</b> Post approval – 'High touch' status

## 8 Calculating a new Syndicate's Solvency Capital Requirement (SCR)

From January 2016, Lloyd's capital is set in accordance with Solvency II requirements. Lloyd's Internal Model (LIM) was approved in 2015 and all managing agents/syndicates are Solvency II compliant.

On the basis that all risks facing a new syndicate are not quantifiable at start-up and a new syndicate will not have its own calculation kernel within the managing agent's Solvency II model, Lloyd's will calculate the syndicate's first year capital requirement through the LIM.

A new syndicate is defined for this purpose as one that is in its first three calendar years of operation. Capital setting for a Special Purpose Arrangement can vary from the following approach. Further detail can be found in the separate SPA guide.

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

#### Year 1 capital setting:

**Full year business plan:** The capital modelling submission for a new syndicate that commences trading on 1 January comprises:

- a three year SBF set out by Lloyd's risk code and by currency
- a preliminary indication of the catastrophe risk within the proposed syndicate's plan during the first year, based on the RDS exposures and any cat model simulations.

For modelling purposes Lloyd's will factor in 'as if' or 'hypothecated reserves' for two years prior to the start year. The main reason for hypothecation is to avoid material year-on-year increases in the FAL requirement which would otherwise occur as a result of syndicate growth during the first few years of underwriting.

**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 requires the same SBF and [RDS/ cat simulation](#) return. Lloyd's will determine whether the premium needs to be annualised.

### Factors affecting a syndicate'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%.
- **New syndicate load:** The modelled ECA (SCR plus 35% uplift) for all new syndicates is increased by 20% for the first three underwriting years of account.

#### 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 (eg. cat exposed) business in more volatile geographic locations may result in a higher SCR;
- **Lloyd's risk history:** The CCK track record utilises the Market's prior years' underwriting experience by class of business. The inclusion of classes of business with a poor historic performance may result in a higher SCR.



- **Mid-year start:** Projected part year premium may be a disproportionately low proportion of the annualised year 1 premium figure.

### **Year 2 capital setting:**

While Lloyd's can also model the syndicate's second year capital at the appropriate time, the actual approach to be adopted can be determined through discussion with the team in Lloyd's.

### **New syndicate – modelling indicative year 1 capital requirement**

Lloyd's can model (*a limited number of times*) an indicative year one capital requirement for a new syndicate. This can be done using the data provided in the Syndicate Business Forecast submitted via MDC.

Applicants should note that September to November is a peak period and existing syndicates' work will have to take priority over new syndicate capital modelling.

### **New syndicate in a box – modelling indicative year 1 capital requirement**

The constraints on what business can be written, their smaller scale and the rules surrounding their underwriting permission, limit the risk that syndicates in a box pose. This means Lloyd's can remove some of the capital-setting rules that apply to new syndicates in their first three years.

- Removal of the 20% new entrant uplift. This uplift is applied to the capital new syndicates must hold today for three years to protect the Central Fund from the inherent operational risk of a new business operating at Lloyd's.
- No requirement to develop an internal model early on. There will be an option to use the Lloyd's internal model for the entire three years (vs. two years today for a new syndicate).
- Option to defer enhanced Central Fund contributions from years 1-3 to years 4-6.
- Permitted to use own performance experience in agreeing business plan and setting capital if adequate historical track record provided. Where there is none, Lloyd's will use loss ratios based on market experience.
- The capital requirement will now be based on the actual premium planned to be written in each year of account, rather than the annualised premium when the syndicate begins trading mid-year.

No perpetual capital tenancy rights will apply to members supporting a syndicate in a box. Lloyd's can model an indicative year one capital requirement for a new syndicate in a box.

The SIAB capital calculation will rely on the information from the Data Pack being the risk code split from the SBF and any cat exposure details.

### **New Special Purpose Arrangement – modelling indicative year 1 capital requirement**

Lloyd's can model an indicative year one capital requirement for a new SPA in the same way as for a traditional syndicate.

As the host syndicate is already in existence and the SPA business is written into the Host syndicate first then Lloyd's do not apply a New Syndicate 20% capital uplift as there is a reduced execution / operational risk for this type of syndicate.

### **Member – underwriting capital**

A member may have minimum paid-up share capital. However, members must provide security in the form of FAL to support their underwriting. These are acceptable assets that the member deposits or has someone else to deposit on their behalf. Lloyd's holds a member's FAL in trust.

Lloyd's will decide how much FAL a member requires based on the agreed ECA for the syndicate(s) on which that member participates.

FAL can be provided by persons other than the member. A member's parent company may deposit its own assets or provide the underlying security for the funds. In the case of an LLP or SLP, the individual members and limited partners provide the FAL.

### **Determining a member's capital requirement**

The amount of FAL a member is required to lodge with Lloyd's is derived from the agreed ECA for each syndicate / SIAB on which that member participates. The capital requirement for a member that only supports one syndicate will be the member's share of the syndicate (up to 100%) as a proportion of the syndicate's ECA.

Spread members participate on more than one syndicate / SIAB and therefore usually underwrite a more diverse portfolio of business. To help determine a spread member's capital requirement, Lloyd's provides Member Modelling Software (Member Modeller). This allows members' agents to model how much capital is necessary to support participation across a given spread of syndicates.

For the annual year-end 'Coming into Line' purposes, the Member Modeller (MCAT) takes into account a member's proposed premium limit for all syndicates on which the member plans to participate, as well as the member's participations on all open underwriting years of account. A member's premium limit is the maximum amount of insurance premium the member can accept, gross of reinsurance but net of brokerage.

MCAT modelling also takes into account a member's participation on any syndicates' unnaturally open years. Open years are years of account which have not been closed at 36 months by the [Reinsurance to Close](#) ("RITC") process.

The capital requirement that MCAT determines is subject to a minimum FAL requirement. This is currently set at 40% of a [member's capacity](#), or overall premium limit, although it should be noted that this level of diversification is increasingly unusual.

### **How a member can provide Funds at Lloyd's (FAL)**

Subject to defined concentration limits and specific Lloyd's requirements, FAL assets can be made up of cash, securities, letters of credit or bank guarantees.

Further information on the requirements of a [corporate member](#) and on FAL arrangements can be found on the Lloyd's website (refer to website links in appendix 3 of this guide).

## 9 Lloyd's and Underwriting Agent's Fees

This section provides an overview of the principal Lloyd's costs. It provides information on the fees which members, syndicates and managing agents pay to enter and as part of the Lloyd's market. These costs are current, however we review our charges annually and every September we announce the charges for the following year.

### This section does not include:

- The day to day running costs of your business
- FCA/PRA fees

### Application fees

- Member applications (corporate)	£52,000
- SPA application	£75,000
- SIAB application	£100,000
- Syndicate application	£200,000
- Managing agent application	£300,000

No VAT is charged on these amounts

If you are applying to set up a new member, you will need to pay the application fee when you apply. We cannot refund this fee.

If you are applying to set up a new syndicate and/or a new managing agent, we will invoice you for the application fee when the BOC has agreed to submit your proposal for Council 'in principle' approval. The fee is not refundable.

### Members fees payable to Lloyd's

#### 1) Members' subscriptions

Members pay 0.36% of their gross written premium (GWP) in subscription fees. A member's gross written premium is their gross premium before deductions

These fees are collected from members' premiums trust funds by managing agents. No VAT is charged on these amounts.

#### 2) Central Fund contributions

The annual New Central Fund contribution rate payable by all members, (other than new corporate members underwriting on new syndicates), is 0.35% of GWP.

Lloyd's is included in the Financial Services Compensation Scheme (FSCS). The Central Fund currently covers the cost of any possible FSCS compensation contributions. We review this every year.

New corporate members pay 1.40% of GWP if they support any of the first three years of account on a new syndicate. If a new member writes on a mix of existing and new syndicates, then the higher rate will only be payable in respect of its participations on the new syndicates.

New corporate members supporting SIAB syndicates have the option to pay a reduced up front contribution of 0.35% GWP (rather than 1.4%) for first 3 years. They will be required to pay the difference of 1.05% based on years 1 to 3 GWP in years 4 to 6 (in addition to the standard 0.35% GWP).

Initial payment of contributions on account will be based on the GWP forecast within the syndicate business forecasts and subsequently adjusted to gross written premiums. For the purposes of adjustment, gross written premiums for a year of account will be determined by the audited annual syndicate returns.

The Central Fund contribution rate is reviewed annually.

#### 3) Central Fund – Callable layer

If it is necessary to meet the liabilities of the Central Fund, subject to Council and members' approval, we may charge all members an additional contribution. This may be up to 3% of a member's capacity. A member's capacity is the maximum amount of insurance premiums that member can accept.

In addition to these contributions, the Council may also make additional charges to members if necessary to supplement the Central Assets of the Society. This is set out in the Powers of Charging Byelaw.

## **Fees members pay to underwriting agents**

### **Managing agents' fees**

Managing agents determine charges payable by members for managing the syndicates they participate in. These charges are normally made up of two elements:

#### **1. A fee**

Fees vary from managing agent to managing agent but normally sit in the range of 0.5% to 1% of a syndicate's capacity. A syndicate's capacity is the combined total of each member's capacity allocated to that syndicate.

#### **2. A profit commission**

A profit commission is normally charged on the profit of a syndicate that has generated for a particular year of account. In some cases the profit commission rate may be scaled to levels of profit.

### **Members' agents' fees**

If a member employs a members' agent, they will pay that members' agent a fee. This fee may be a fixed amount or a percentage of the member's capacity. A members' agent may also charge a profit commission.

## **Fees syndicates pay to Lloyd's**

### **General overseas charges**

We charge each syndicate a percentage of its gross overseas premiums. This is to cover the costs of our overseas operations and any UK costs associated with them. For example, in the case of the United States, this includes the fees we pay the US counsel to protect our general trading position.

### **Operational costs**

You may need to pay Lloyd's the cost of direct and indirect taxes, if they apply to your business. You should consider this in your business planning, as well as taking into account the costs of processing business at Lloyd's.

### **Fees syndicates pay to DXC**

Charges per syndicate circa £50,000 plus additional fees for transactional processing charges.

## Appendix 1

### Syndicate application framework

The following table sets out the Lloyd's application framework. The duration of the application will be heavily driven by the applicant, however as a guide, the average duration of recent new syndicate applications is 12 months.

#### Stage 1: Enquiry – Proof of concept

**Applicant provides:** High level presentation of business plan and rationale featuring people, plan and capital.

**Lloyd's provides:** Feedback on what works and what doesn't work and comment on aspects needing development

**Lloyd's confirms:** Whether the proposal can progress to the next stage and, if so, on what basis.

#### Stage 2: High Level Pitch (HLP)

**Applicant provides:** A more detailed presentation that provides more detailed information on People, Plan and Capital, building on the high level summary and taking into account Lloyd's feedback to the Proof of Concept conversations

**Managing agent:** You may be accompanied to the HLP by senior representatives of the managing agent you have selected to manage your syndicate (if a third party arrangement).

**Lloyd's provides:** Feedback on the HLP development.

**Lloyd's confirms:** Whether the proposal can progress to the next stage and, if so, on what basis.

**Comment:** If the proposal can be progressed, it's likely that there will be further discussions with Lloyd's, particularly around the syndicate underwriting plan and underwriting resources.

**Indicative capital requirement:** If the proposal is progressing to the Detailed Plan Presentation stage, Lloyd's may model an indicative Syndicate Capital Requirement based on a first draft 3 year business plan.

#### Stage 3: Detailed plan presentation

**Applicant and managing agent provide:** A detailed presentation on the total syndicate proposition – people, plan and capital. Presentation to include section from the managing agent on their proposals for the integration, management and governance of the syndicate.

**Lloyd's:** Makes further challenge as necessary to any aspect of the syndicate proposal or its management. The BOC must be satisfied that your proposal is viable before they can allow it to move on to the committee approval stage.

**Lloyd's BOC confirms:** Whether the proposal can progress to the next stage and, if so, on what basis

#### Stage 3a: Capital and Planning Group (CPG)

**Applicant submits:** The Syndicate Business Forecast (SBF) based on the most recently agreed business plan

**Lloyd's CPG:** Reviews and makes comment on the SBF. (NB: this does not constitute Lloyd's agreement to the SBF). The purpose is for CPG comments to be included in the Council paper).

#### Stage 4: Lloyd's committee 'In principle' approval

**Lloyd's:** Prepares decision paper and presents to the Council seeking 'in principle' approval to the application.

**Lloyd's CPG:** Reviews the finally submitted business plan and the calculation of capital required to support that plan with a view to approving them.

#### Stage 5: Making it happen

**Applicant provides:** Additional supporting documentation as required to demonstrate adherence to Lloyd's standards.

**Agent provides:** Additional supporting documentation as required to validate arrangements to manage the syndicate and to demonstrate adherence to Lloyd's standards.

**Lloyd's reviews:** Standards documentation

#### Applicant/Agent:

Put in place operational and administrative arrangements which will include:

- Setting up Premiums Trust Fund bank accounts
- [Corporate member](#)(s) application (if relevant)
- Capacity offer to private members (if relevant)
- US licensing application (if relevant)
- Legal agreement(s)

#### Stage 6: Approvals

#### Stage 6a: Capital and Planning Group (CPG) – business plan and capital agreement

#### Stage 6b: An Oversight Manager – Standards approval

**Oversight Manager:** Reviews the outputs from the Standards reviews with a view to approving the syndicate (and managing agent's) compliance with the Standards.

#### Stage 6c: Business Opportunities Committee (BOC) Formal approval

**Lloyd's BOC:** Considers the outputs from the CPG, Standards review and how the operational and administrative aspects have been addressed with a view to granting formal Permission to Underwrite. We will also produce a post-approval action plan, detailing deadlines for completion of follow-up review work etc.

#### Stage 7: Post-approval – 'High touch' status

**Lloyd's:** Once you have begun trading, we will follow up on the deliverables in the post-approval action plan. In addition we will regularly review how your business is performing against your agreed business plan, Lloyd's Minimum Standards and Lloyd's Guidelines.

## Appendix 2

### Syndicate in a box application framework

The following table sets out the Lloyd's application framework. The duration of the application will be heavily driven by the applicant, however as a guide, the planned duration for SIAB applications will be 3 months from receipt of the data pack.

#### Stage 1: Pre application - Enquiry – Proof of concept

**Applicant provides:** High level summary of business proposal in their own format (no template provided) including the SIAB criteria.

**Lloyd's provides:** Written feedback on what works and what doesn't work and comment on aspects needing development. Lloyd's assessment against syndicate in a box criteria.

**Lloyd's confirms:** Whether the proposal can progress as a syndicate in a box application or other route.

#### Stage 2: Pre application - Decision to follow SIAB path

**Applicant:** Starts to work on the detailed Data Pack and completion of Syndicate Business Forecast

**Lloyd's provides:** Syndicate number to use in the MDC system for Syndicate Business Forecast.

**Time line:** data pack may take some time to prepare but this task is owned by the Managing Agent and the SIAB applicant.

#### Stage 3: Detailed "Data Pack" to be provided to Lloyd's

**Applicant and managing agent:** Provide detailed data pack via SecureStore and SBF via MDC.

**Lloyd's:** New Entrants teams will liaise across Lloyd's teams to review the data pack.

**Time line:** data pack submission date is the start of the 3 month turnaround for a SIAB application

#### Stage 4: Lloyd's run internal benchmark capital model and model indicative capital figure

**Lloyd's teams:** The Syndicate Business Performance team and the Capital team will review the plan and raise any queries at this point via New Entrants team with the support of Oversight Managers team. .

#### Stage 5 : Lloyd's provide feedback to the SIAB on plan and provide the indicative capital figure

**Lloyd's New Entrant team:** provide indicative capital figure to the SIAB and any feedback on the SBF

**Managing Agent/ SIAB:** Potential resubmission of the plan depending on the feedback received.

**Stage 7: Lloyd's Business Opportunities Committee reviews the business plan and give "in principle" approval**

**Lloyd's BOC:** written feedback provided to SIAB.

**Stage 8: Making it Happen**

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**Xchanging:** Premium trust fund and bank account creation

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**Member services:** Confirm the arrangements of any new corporate members providing support to the new SIAB

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**Timeline:** Making it happen should be completed within 12 weeks of data pack being received.

**Stage 9: Business Opportunities Committee (BOC) Formal approval**

**Lloyd's BOC:** Considers the outputs from the Lloyd's teams' review work and how the operational and administrative aspects have been addressed with a view to granting formal Permission to Underwrite. We will also produce a post-approval action plan, detailing deadlines for completion of follow-up review work etc.

**Stage 10: Post-approval – 'SIAB' status**

**Lloyd's:** Once you have begun trading, we will follow up on the deliverables in the post-approval action plan. In addition we will regularly review how your business is performing against your agreed success criteria and your business plan, Lloyd's Minimum Standards and Lloyd's Guidelines.

We will be conducting Quarterly reviews and Annual reviews against the agreed success criteria to ensure the plan is on track for the syndicate in a box

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## Appendix 3

### Managing agent application framework

The following table sets out the Lloyd's application framework. The duration of the application will be heavily driven by the applicant, however as a guide, the average duration of recent new managing agent applications is 18 months.

#### Stage 1: Enquiry – Proof of concept

**Applicant provides:** High level summary setting out the managing agent proposal – principally Board and operating model

**Lloyd's provides:** Feedback on the proposal and structure, along with comment on aspects needing development.

**Lloyd's confirms:** Whether the proposal can progress to the next stage and, if so, on what basis.

#### Stage 2: High Level Pitch (HLP)

**Applicant provides:** A more detailed presentation that builds on the enquiry summary and which reflects Lloyd's feedback.

**Lloyd's provides:** Feedback on the HLP development

**Lloyd's confirms:** Whether the proposal can progress to the next stage and, if so, on what basis.

**Comment:** If the proposal can be progressed, it's likely that there will be further discussions with Lloyd's particularly around the proposed directors (executive and independent) of the managing agency, along with the governance structure.

#### Stage 3: Detailed plan presentation

We will invite the PRA and FCA to attend this presentation.

**Applicant provides:** A detailed presentation on the overall managing agent proposition

**Lloyd's:** Makes further challenge as necessary to any aspect of the syndicate management proposal.

**Lloyd's BOC confirms:** Whether the proposal can progress to the Committee stage and, if so, on what basis.

#### Stage 4: Lloyd's committee 'In principle' approval

**Lloyd's:** Prepares decision paper and presents to the Council seeking 'In principle' approval to the application

#### Stage 5: Making it Happen

**Applicant provides:** Additional supporting documentation as required to demonstrate adherence to Lloyd's standards

**Lloyd's reviews:** Standards documentation

**Applicant/Agent:** Put in place operational and administrative arrangements which will include:

- Transferring Premium Trust Fund (PTF) bank accounts
- Appointing PTF Trustees
- Agreements/contracts to be novated

## Stage 6: Formal approval

### Stage 6a: Oversight Manager – Standards approval

**Lloyd's Oversight Manager:** Reviews the outputs from the Standards reviews with a view to confirming the syndicate (and managing agent's) preparedness to comply with the standards.

### Stage 6b: Business Opportunities Committee (BOC) – Formal approval

**Lloyd's BOC :** Considers the outputs from Oversight Manager and how the operational and administrative aspects have been addressed with a view to granting formal Permission to Manage the syndicate.

### Stage 7: Post-approval – 'High touch' status

**Lloyd's:** Once you have begun trading, we will follow up on the deliverables in the post-approval action plan. In addition we will regularly review how your business is performing against your agreed business plan, Lloyd's Minimum Standards and Lloyd's Guidelines.

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## Appendix 4

### Useful Website links

#### Background and history of Lloyd's

[www.lloyds.com/about-lloyds](http://www.lloyds.com/about-lloyds)

#### Lloyd's Chain of Security

[www.lloyds.com/about-lloyds/what-is-lloyds/stability-and-security](http://www.lloyds.com/about-lloyds/what-is-lloyds/stability-and-security)

#### Lloyd's Ratings

[www.lloyds.com/investor-relations/ratings](http://www.lloyds.com/investor-relations/ratings)

#### Corporate Governance

[www.lloyds.com/about-lloyds/governance-and-management](http://www.lloyds.com/about-lloyds/governance-and-management)

#### Operating at Lloyd's

<https://www.lloyds.com/conducting-business/requirements-and-standards/minimum-standards>

#### International Regulatory and Tax requirements

[www.lloyds.com/tools-and-systems/crystal](http://www.lloyds.com/tools-and-systems/crystal)

#### Membership Requirements

[Y4071](#) – Membership and Underwriting Requirements (Corporate Member)

[Y4833](#) – Membership and Underwriting Requirements (Funds at Lloyd's)

[Y5177](#) – Provision of capital to support members' Economic Capital Assessments; timing and Solvency II tiering limits

#### Lloyd's SPA guidance

[www.lloyds.com/about-lloyds/joining-the-market-and-starting-a-new-business](http://www.lloyds.com/about-lloyds/joining-the-market-and-starting-a-new-business)

## Glossary

(Please also refer to the Definitions Byelaw)

### Member's capacity, syndicate capacity

In relation to a member, the capacity is the maximum amount of insurance premiums (gross of reinsurance but net of brokerage) which a member has agreed to accept for a particular year of account. In relation to a syndicate it is the aggregate of each [member's capacity](#) allocated to that syndicate.

### Corporate Member

One of: A company incorporated in the UK with limited liability, a Scottish limited partnership or a limited liability partnership that is admitted to membership of the Society.

### Funds at Lloyd's (FAL)

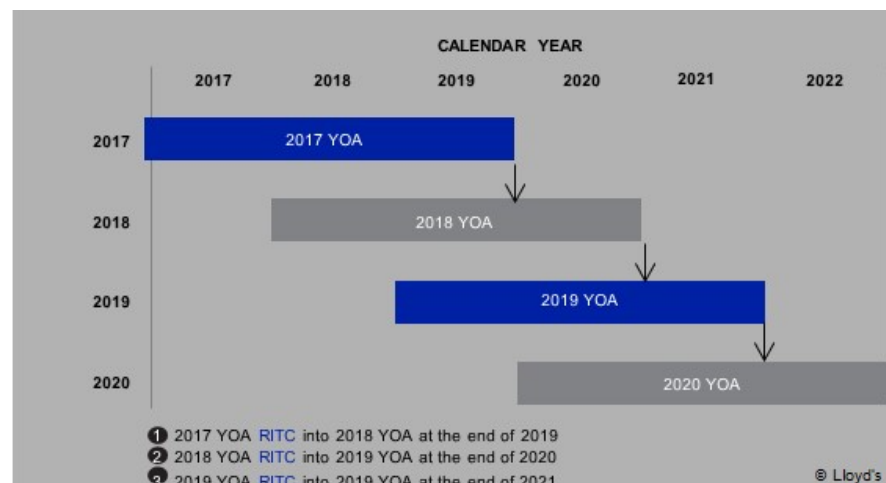
The regulatory capital held at Lloyd's, usually at member level

### Realistic disaster scenario (RDS)

A series of scenarios, both natural and man-made, which are used to model the market's exposure to a variety of different catastrophes. This enables better risk management practices within Lloyd's.

### Reinsurance to Close (RITC)

A reinsurance agreement under which members of a syndicate for a year of account to be closed are reinsured by members who comprise that or another syndicate for a later year of account against all liabilities arising out of insurance business written by the reinsured syndicate. Every policy a syndicate writes is allocated to an underwriting year of account.



An underwriting year of account runs for a minimum of 36 months (except for year 1 of a mid-year start-up). Policies are allocated to a specific underwriting year of account based on the inception date. For example, if a policy incepted during 2019, all of the premiums and claims that arise from that policy will be allocated to the 2019 year of account.

At the end of each year of account, the liabilities of a syndicate are re-insured into the syndicate's following year of account. This process is known as [Reinsurance to Close \(RITC\)](#). The cost of the RITC is met by the members of the year of account that is being closed.

With RITC, the reinsured members remain primarily liable for the insurance and reinsurance business they have written, however the PRA recognise that an RITC has to all intents and purposes the effect of a Part VII transfer. An RITC contract is not limited by time or amount.

### Risk appetite

The level of risk a syndicate, or a member, is prepared to accept.

### Third party managing agents

Every Syndicate must be managed by a Lloyd's managing agent. If you decide not to set up your own managing agent, you can enter a contractual arrangement with a third party managing agent to manage your new Syndicate for you.

# Disclaimer

We have written this document ("The Guide") to provide you with some general information. To the best of our knowledge, this information is correct at the date of publishing, but it may change.

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