

# Market Bulletin

Ref: Y5373

<b>Title</b>	2023 Business Plan and Capital approval process and timeline
<b>Purpose</b>	To inform the market of the 2022 process and timelines for agreeing 2023 Business Plans and Capital requirements
<b>Type</b>	Event
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In preparation for the 2023 business planning and capital process, syndicates should be aware of the **key areas of focus** for this year and additional data collection to support Lloyd's assessment:

## 1) High Inflation Environment

Inflation will be a key focus in the planning, reserving and capital teams' oversight. Lloyd's expects specific consideration to be given to the impact of rising inflation levels above historical observations and syndicates should reflect the higher mean levels in plans, reserves and capital.

For business planning, Performance Management and Capital teams have agreed with the LMA the collection of additional information on "allowances for inflation in the plans" as part of the SBF submission. This inflation data is mandatory, and all syndicates should provide the data accurately.

Additionally, increased levels of volatility of inflation needs to be taken into account in capital and reserves. The capital team will be collecting further information on the allowance of inflation via the Focus Area Return.

## 2) Environmental, Social and Governance (ESG)

In the ESG Guidance for Managing Agents, published in October 2021, Lloyd's asked all Managing Agents to submit an appropriate ESG strategy and framework document as part of the 2023 business planning process. Syndicates should consider their own governance requirement as well as their plans for sustainable profitable performance and

responsible investments. More details will be provided in the letter to the CEOs later in May. ESG strategy will be reviewed by Lloyd's and feedback provided to each managing agent in their Oversight letter as appropriate.

### **Business Planning process**

#### **A differentiated, risk-based approach to 2023 business plans**

Lloyd's will continue to take a risk-based approach for the approval of 2023 business plans through the oversight framework, with a focus on sustainable profitable performance.

- Recognised as Lloyd's strongest performers, Outperforming syndicates will be a candidate for a 'file and use' approach.
- For syndicates classed as Good, Moderate or Underperforming, Lloyd's will use a risk-based approach to differentiate the level of review required for each plan. The level of review will also take into consideration the rating of each syndicate against the Underwriting Profitability Principle and how that aligns to the overall categorisation.
- Where a syndicate is classed as Unacceptable, Lloyd's will engage separately to discuss its future in the market.

#### **Logical, Realistic and Achievable Plans**

The assessment of whether a business plan is Logical, Realistic and Achievable will continue to underpin all decisions related to plan approval:

- **Logical:** Planned actions reflect *strong portfolio management to deliver sustainable, profitable performance*
- **Realistic:** *Assumptions that underpin those actions are credible* in context of prevailing market conditions.
- **Achievable:** Evidence that *syndicate has the expertise, track record, controls and governance to execute the plan*

#### **Catastrophe Risk**

As part of the wider work to further understand syndicates' expected profitability and volatility in results, we will require the submission of 1 in 10 year loss ratios, both gross and net of reinsurance, and syndicates' breakeven probabilities. This will enable Lloyd's to build a more holistic picture of expectations and more effectively contextualise prior year losses.

All plans must be approved in writing by the CEO and the Chair of the Managing Agency Board as part of the submission and adhere to Franchise Guidelines such as line size dispensations and class of business permissions.

### **Capital process**

## Capital Fast Track

The Fast Track Process, carried out by the capital team over the last two years, will now be aligned with the implementation of the Principles of Doing Business at Lloyd's.

The level of review of the Lloyd's Capital Returns (LCRs) carried out by Market Reserving and Capital (MRC) team will be risk-based as in previous years and will be driven by the following considerations:

- The Capital Principle assessment of the syndicate against the expected maturity  
Syndicates with performance assessed as being below or well-below the expected maturity for the Capital Principle cannot be fast tracked. For other syndicates fast track status will depend on the metrics outlined below.
- The amount of review carried out of the syndicate prior to the LCR submission  
Syndicates where we have carried out a deep dive are more likely to be fast tracked.
- The amount of change submitted as part of the capital submission  
Syndicates that submit a Major Model Change Application (MMCA) with their LCR submission in September/October due to risk profile changes or accumulations of minor changes, can generally not be fast tracked as Lloyd's needs to review the material change. Lloyd's will at times defer the review of the MMCA for low materiality syndicates, which means in these limited cases the capital submission may be fast tracked despite having an MMCA.
- The amount of movement in key Solvency Capital Requirement (SCR)-to-exposure metrics  
Material changes will mean that the syndicate cannot be fast tracked.
- Materiality of the syndicate in terms of ultimate Solvency Capital Requirement (uSCR)  
Larger syndicates will generally need a higher level of review due to the risk they pose to Lloyd's.

All syndicates, regardless of fast track status, will still be considered for capital appropriateness based on their catastrophe risk appetite and model completeness.

The Capital Fast Track process for 2022 will be outlined in the Capital and Validation Briefing on the 8<sup>th</sup> of June and will be detailed in the LCR instructions that will be published in July.

## Reserving

The Reserving Tests of Uncertainty were introduced in 2019 to assess key inputs to the capital model from a reserving perspective, which could lead to under-capitalisation if inappropriate. These inputs need to adequately reflect uncertainty and (where required) capital loadings were applied to address deficiencies identified by the testing. Since 2019 there has been year-on-year reduction in the number of Lloyd's loadings applied to

syndicates in respect of these tests.

In direct response to this market improvement, the testing framework for the 2023 capital and business planning approval process has been reassessed and updated, integrating oversight as far as possible into our annual reserve meetings. Where syndicates are identified as requiring oversight over the summer, they will be informed in June 2022. Details on this approach were provided at the end of April in market communications to Chief Actuaries and Heads of Capital.

### **A change in approach to engagement and communication pre-Capital and Planning submissions**

Account managers will provide more detail on Lloyd's expectations for planning and capital in a letter to CEOs later in May. The annual market messages will also be delivered on 18 May by Patrick Tiernan, Chief of Markets and Burkhard Keese, COO and CFO, and will reaffirm the focus areas for 2023 business and capital plans.

There will be a slight change in approach to Strategic Business Discussions (SBDs) for this year. They will be renamed *Syndicate* Business Discussions to better reflect the nature of these engagements and will commence from mid-June. Every managing agent will meet with Lloyd's representatives, led by our Account Managers, and attended by Syndicate Performance Managers with support from technical teams. However, discussions will be more performance focused and cover syndicate's intentions and ambitions for the 2023 planning cycle at a syndicate class of business level. Each syndicate's portfolio deciles will also be discussed and, for the majority of syndicates, agreed in these meetings.

By updating our approach, the intention is to allow more open and honest conversations at the SBDs, enabling our feedback to be more specific and focused on a syndicate class basis. Given the nature and more granular focus of these discussions, the meeting length will be 2 hours for each syndicate. Following with the format of prior years, an agenda will be circulated ahead of the meeting by the Account Managers. Ahead of these discussions, syndicates will also be asked to complete and submit a KPI template for 2023 plans to support meaningful discussions. Further details will be provided in the CEOs letter.

Written feedback will be provided to each syndicate following the SBD discussions, which will state Lloyd's view of the plan, capital and other areas for consideration. Syndicates should consider the feedback prior to final business plan and capital submissions and respond to any action points provided as well as continuing to engage with the Lloyds Team in the lead up to plan submissions.

### A phased timetable for 2023 plan and capital submissions

The phased approach for business plan and capital submissions will continue for the 2023 process. Each syndicate will be given a specified return submission date based on capital structure and our risk-based approach.

Syndicates will follow one of four submission phases, which will be confirmed by your Account Manager later in May. Note that the below dates are the final deadlines for submission, syndicates can submit before this deadline.

<b>Syndicate group</b>	<b>SBF return submission deadline</b>	<b>LCR return submission deadline</b>
Phase 1	1 September	5 September
Phase 2	12 September	15 September
Phase 3	19 September	22 September
Phase 4	26 September	29 September

Once the agreed phase for your syndicate has been communicated to you by the Account Manager, Lloyd's will not be supporting extensions to submissions after the confirmed deadlines in September.

Additionally, to reflect internal workloads and priorities post business plans and capital approval, no SBF submissions between 1<sup>st</sup> December 2022 and 6 January 2023 will be reviewed by Lloyd's.

In July we will publish the 2023 guidance on the Syndicate Business Forecast (SBF), Lloyd's Capital Return (LCR) and Catastrophe Returns. Further support and guidance will also be provided through the capital and planning pages on [www.lloyds.com](http://www.lloyds.com).

If you have any questions, please contact your Account Manager in the first instance.