

Transition TCX

Guidance on the 5% Transition TCX class

Background

Lloyd's introduced a non-transferrable class of Business "Transition TCX" on 16 May 2024. It is designed to help the market to undertake transition risk experiments without having to compete internally for capacity or impacting their performance based oversight.

We know that the market undertakes transition risk underwriting within their standard business plans. The Transition TCX class is not designed to replace that, but to provide additional capacity where that is not possible.

There is no downside to including TCX within your business plan, and making use of it or not depending on whether the opportunity arises.

This note aims to clarify Lloyd's views on certain regularly asked questions.

1. What is Transition TCX?

Transition TCX is a syndicate class of business that syndicates can use to write up to an additional 5% of Syndicate Business Forecast GWP of transition business.

2. What is a transition risk?

Transition risks take many forms including carbon credits, carbon capture and storage, nuclear fusion, hydrogen energy etc. Some will form parts of standard business plans that do not require the use of the Transition TCX class. We will permit all business that is working towards achieving a net carbon zero global economy by 2050.

Ultimately what constitutes a transition risk is the responsibility of the person responsible for sustainability underwriting within the syndicate e.g. Head of Sustainable Underwriting or Chief Underwriting Officer. The Corporation will rely upon their assessment against the examples defined above. Every few years Markets will assess what has been written through the Transition TCX class and if any of it is against the spirit of the guidance, permission for that syndicate to use Transition TCX will be reconsidered.

3. Who is Lloyd's central point of contact for Transition TCX?

Head of Underwriting Performance & Solutions will be the owner of the Transition TCX class within Lloyd's. Syndicate Performance Managers are the first point of contact for the syndicates and their plans.

4. Do I need to ask about individual Transition TCX business?

No.

Lloyd's does not require advance discussion of your Transition TCX business. We need to see the total premium allocated to Transition TCX in your Quarterly Monitoring reporting. We also request that you include an estimate of the Transition TCX class in the following year's plan but this does not need to link to specific transition business if you don't know the details yet.

Transition TCX is not a way of writing more business with reduced oversight. Transition TCX business should align with syndicate underwriting strategy and build towards the development of increased capability within the syndicate towards the objectives of the syndicate. In discussions with your Syndicate Performance manager, you should be able to explain these links or Transition TCX permissions may be withdrawn.

If you are the lead we do expect you to have the necessary expertise and knowledge in the product line to write the Transition TCX business appropriately. For truly new risks we do not expect a track record but expect Managing Agents to have carried out a proportionate degree of analysis to estimate key parameters of any pricing models which should then be monitored. We understand that small experiments may be needed to establish data when none exists and, in this case, initial assumptions must be chosen through general reasoning.

Classes where there are existing constraints (such as financial guarantee business) remain restricted and would require approval as usual based on an assessment of capability. Refer to the Supplementary Guidance for restrictions e.g. in relation to risk codes CF, CR, FG, FM and SB.

5. Can I have the Transition TCX class if I am RIO unacceptable?

No.

6. Can I have the Transition TCX class if I am RIO underperforming?

If you are RIO Underperforming, you will need to speak to your Syndicate Performance Manager and your proposal will be considered on a case-by-case basis.

7. Can I have the Transition TCX class for the current year of account even if it wasn't in my agreed plan?

Yes.

It is ok to introduce the new Transition TCX class mid-year. If you forecast that the GWP will exceed the 5% you will need prior agreement from your Syndicate Performance Manager and, in this case, we would need to see details of what will be included in your plan for this class.

8. Do I need to re-submit my plan if I introduce the Transition TCX class for the current YoA?

Yes.

Syndicates will need to re-submit business plans that include the Transition TCX class but can be flexible on timing provided it is within the reporting timetable.

Syndicates will need to ensure that QMB and PMDR returns also capture the Transition TCX class of business.

9. Do I need to follow a naming convention in the SBF for the Transition TCX Class?

Yes. This will allow us to correctly identify your Transition TCX class. The naming convention must be as below. Any failure to following this naming convention will result in an SBF resubmission.

- COB Code: TCX
- Class of Business: Transition_TCX

10. Can existing business be moved into the Transition TCX class?

Requests like these need to be discussed with your Syndicate Performance Manager and will be reviewed and assessed on a case-by-case basis. It is important to back the case with reasons for the move.

11. How do you move risks out of the Transition TCX class into other classes?

Once a risk is mature enough to leave the Transition TCX SCOB, it should either be moved into the most relevant SCOB in the approved SBF or a new SCOB should be added. It would then be treated as per any other existing or new class of business. You will need to speak with your Syndicate Performance Manager to agree the proposed change including the KPIs which would be included for the (new) class, based upon the historic performance data of the product. Your Syndicate Performance Manager will also need to understand the impact/ change to the Transition TCX class in the SBF.

At the point at which a new product is well established within the syndicate it will need to leave the Transition TCX and go into a more appropriate SCOB. This will be no later than £10m GWP per

year written for the syndicate, or 5 years within Transition TCX. Because a product is established for the lead syndicate, it may still be an experiment for the follow markets and could still potentially be included within Transition TCX. If there are any issues, please discuss with your Syndicate Performance Manager.

12. Do I need to include the Transition TCX class in the capital and capacity calculations?

Yes, you will need to include the Transition TCX class in the LCR and when setting the Capacity number.

13. Will there be additional capital requirements if I introduce the Transition TCX class for the current YoA?

This will depend on the type of business envisaged and the scale of the business written.

If there is a strong correlation between the new Transition TCX business and your existing capital driving classes, the impact on capital required could be material.

14. If the leader wants to include business within their BAU plan but followers want to use the Transition TCX class, can they?

Yes

15. If the follower wants to include business within their BAU plan but leaders want to use the Transition TCX class, can they?

Yes.

We understand that some syndicates will have included the Transition TCX class in their business plan and others will be writing into their BAU classes.

16. How are Transition TCX results excluded from the rest of syndicate results?

Transition TCX business is a separate SCOB in the SBF so syndicate performance can be viewed excluding the Transition TCX SCOB.

17. How do we ensure consistency of performance measurement within groups of managing agents participating on the same experiment?

Leaders are encouraged to share performance measurement data with followers so that all parties have the same information to judge the ongoing success of experiments. Managing agents should seek advice if they are concerned about anti-competition; or ask to see the Lloyd's Product Launchpad anti-competition guidance note.

18. I want to lead but don't have the risk code – can I do it?

If you wish to lead a new product it is important to have the relevant and appropriate skills and knowledge. You would need approval from Lloyd's to add the risk code to your plan.

For truly new risks we do not expect a track record but expect managing agents to have carried out a proportionate degree of analysis to estimate key parameters of any pricing models which should

then be monitored. We understand that small experiments may be needed to establish data when none exists and, in this case, initial assumptions must be chosen through general reasoning.

19. I want to follow but don't have the risk code – can I do it?

Yes.

You do not need the risk code to follow – and will be automatically granted it for following purposes only. This does not imply that you have authority to lead other business with that new risk code. Follow syndicates should however include risk codes in their Transition TCX plans at the point of resubmission.

You must satisfy yourself that you have the necessary portfolio management skills to follow classes that you do not have strong underwriting skills for. This is so that you can track the performance of the transition experiment and know when to exit if performance is poor. You should think through any reinsurance implications – including the possibility that the business is not covered by your programme and in this case that you are happy to write the business net of reinsurance.

20. Will Lloyd's opinion of syndicate performance be damaged if an experiment performs badly?

The combined ratio of the Transition TCX class will not be included in Lloyd's oversight of BAU lines. Acquisition expenses are often high and results initially poor and that new transition experiments are more likely to fail. This will not be considered as evidence of poor management.

However, on a normalised expense base, business should be expected and planned to be profitable.

If the Transition product is written into an existing class and not reported into the Transition TCX class, Lloyd's will not be able to remove the performance of the Transition products from the existing classes.

21. Can a Transition TCX experiment involve a new coverholder automatically?

No.

If the transition risk is to be delivered through a new coverholder, contact your Syndicate Performance Manager or the Delegated Authority Oversight team as approval will be required.

22. Can I carry out transition activities in excess of 5% of GWP?

Yes – but you need to speak to your Syndicate Performance Manager first.

23. If an experiment is included in Year of Account N and then carried forward into YoA N+1 does this count towards the 5% total in the second year?

There are two choices, either the transition experiment is taken into the BAU plan or kept in the TCX class.

If the former, then the results will contribute to the loss ratio for the YOA N+1 against the relevant risk code as for other business. If you keep the experiment within TCX then the results will not be included in the risk code loss calculations but will count towards the YOA N+1 total.

In the SBF guidance we say: Experiments that were carried out in the current YoA may have run their course. If these are being transferred to BAU then the full 5% is available. If, however, Managing Agents are continuing with an existing experiment then this should be allocated to the prospective Transition TCX class and the remainder will be available for new experiments.

24. Can the Transition TCX class have an absolute maximum gross line size that is greater than the absolute maximum gross line size in the agreed SBF for the corresponding class?

For example, the Property SBF class has an absolute maximum gross line size agreed at USD 50m but the Transition TCX class for a property related experiment would need a USD 75m absolute maximum gross line size.

You will need approval from Lloyd's if you want to exceed the agreed SBF limit for the class. In this case the absolute maximum gross line size in the Transition TCX class would be considered on its individual merits and taking Absolute Maximum Gross Franchise Guideline Dispensations into consideration. You must also satisfy yourself that you have matching RI in place in order to cover the business written in the Transition TCX class. The Absolute Maximum Net Retained Line should be considered taking franchise guideline dispensations into consideration. Again, you will need approval from Lloyd's in this case.

25. Can I write LCM5 risks within the Transition TCX?

Provided the risks are transitional, LCM5 exposure should not be a barrier to the use of the Transition TCX code. If there is anticipated LCM5 exposure and concerns around CRA – please contact your Lloyd's Exposure Management Manager.

26. Can I write multiyear policies under Transition TCX?

Yes - provided there are matching reinsurance contracts and accurate multi-year accounting applied. If you are uncertain, discuss with your Syndicate Performance Manager.

27. Where can I find commercial support with ongoing or potential TCX experiments?

Lloyd's Lab is available to provide commercial support related to Innovation or Transition experiments. Please email lloydslab@lloyds.com for further details.