

MARKET BULLETIN

REF: Y4473

Title	2012 Syndicate Business Forecast (SBF) process
Purpose	To update managing agents on the 2012 SBF business planning process, new data requirements and the revised timetable for aligned syndicates.
Type	Scheduled
From	David Indge, Chair Business Plan Steering Group
Date	14 March 2011
Deadline	Provisional SBF submission (optional for aligned syndicates) – 8 July Final SBF submission for all syndicates – 9 September
Related links	Market Bulletin Y4467: 2012 ICA process: http://www.lloyds.com/~media/Files/The%20Market/Communications/Market%20Bulletins/2011/02/Y4467.pdf

SBF basis and guidance

There are a number of revisions to the 2012 SBF Return, which have been implemented due to Solvency II (SII) and to incorporate all SBF reporting requirements into the main SBF Return e.g. the returns for China and Singapore are no longer separate. All changes have been subject to appropriate User Acceptance Testing and recommendations have been factored into the final Return. Whilst Lloyd's continues to review SII requirements, the following new data has been included in the 2012 SBF Return at this stage:

- Premium data will be collected in five currencies, compared to two in previous years.
- A breakdown by distribution channel is required, i.e. Lloyd's Asia (Singapore), Lloyd's China Reinsurance, Lloyd's China Direct, Lloyd's Japan and London.
- A new form will record an estimate of ultimate written premium development by quarter for the pure year.
- A new form has been created to capture the attritional, large and catastrophe loss ratio splits that were previously provided in the bridging analysis template as part of Form 990. The factors that influence the change between the current year (2011) and prospective year (2012) loss ratios will also need to be explained.
- Unaccepted premium on a Solvency II basis will now be collected by class of business.
- An additional field has been added to record if a syndicate has tradable capacity in the auction process.

For further information please refer to Appendix 1. Full guidance will be available in the 2012 SBF Instructions that are due to be published in the Core Market Returns (CMR) system in early April.

Timetable for prospective year (2012) SBFs

There are some important changes to the SBF submission deadlines this year, in order to facilitate a prompt ICA review process that will free time up for managing agents and Lloyd's to focus on Solvency II, particularly the submission of the Solvency Capital Requirement (SCR) by 31 October 2011.

As a result, there will be two deadlines for submission of the 2012 SBF Return: a provisional and final submission deadline.

- The provisional SBF submission deadline is 8 July 2011 and is mandatory for non-aligned syndicates. Aligned syndicates may opt to submit a provisional SBF Return and will need to do so if they require an updated plan to be taken into consideration in the indicative syndicate capital benchmark movement in July 2011. In the absence of a provisional SBF, this movement will be based on a rolled forward version of the latest approved 2011 Business Plan.
- The final SBF submission deadline for all syndicates (aligned and non-aligned) is the 9 September 2011.

In order to assist managing agents' preparation, the 2012 SBF Return will be made available in the CMR system in early April 2011.

All final 2012 SBF Returns must be approved by the managing agency board. Lloyd's is aware that a number of managing agents with aligned syndicates have already scheduled board meetings to approve plans for 2012 and therefore may be impacted by this change in timetable. Lloyd's will therefore allow a sub committee (comprised of the appropriate Senior Management but as a minimum the Active Underwriter/ Director of Underwriting and Chief Financial Officer) to approve the 9 September SBF submission.

This should subsequently be ratified by the full board and confirmation of this approval provided to Lloyd's by 7 October 2011.

Resubmission of the current year (2011) SBF

There is no longer a formal requirement to resubmit the current year SBF. Managing agents, however, are required to apply to Lloyd's for prior approval where there is a proposed material change to the latest approved plan. Please note that a material change can include a reduction against the approved business plan. Managing agents that are considering a material change should contact their Underwriting Performance (UP) Account Executive in the first instance.

Any 2011 SBF resubmission made after 1 April will include the new forms discussed in the 'SBF basis and guidance' section.

Definition of aligned/ non-aligned syndicates

For the purposes of the SBF, Lloyd's will treat the following as aligned syndicates:

- Syndicates where all the corporate members participating on the syndicate for the 2012 year of account and the managing agent of the syndicate are owned by the same company or are part of the same corporate group and the capacity is not tradable in the 2011 Capacity Auction.
- Syndicates where there may be non-aligned members but where the capacity will not be traded in the 2011 Capacity Auctions. This can include special purpose syndicates. If syndicates in this category wish to follow the non-aligned timetable they should bring this to the attention of their UP Account Executive by 8 July. Where syndicates are to be treated as aligned it is the responsibility of managing agents to notify this fact to their non-aligned members.

All other syndicates are to be considered non-aligned for the purposes of the 2012 SBF submissions. Non-aligned syndicates will therefore primarily include traditional, mixed syndicates with Names capacity, where the capacity will be tradable in the 2011 Capacity Auctions.

Exchange rates

Lloyd's sets prescribed exchange rates that are to be used during the SBF process.

Provisional rates: Any draft SBF submission that is submitted up until 30 July 2011, should be based on Lloyd's provisional exchange rates. Rates will be set as at 31 March 2011 and will be communicated to managing agents via a separate Market Bulletin in early April.

Final rates: All final SBF submissions (presumed to be those created and submitted after 1 August 2011) will need to be based on the final rates. These will be set as at 30 June 2011 and made available in any new SBF created in the CMR system from 1 August 2011. Rates will be communicated to managing agents in a Market Bulletin on 1 July and will be consistent with those used in the Individual Capital Assessment (ICA) process.

Changes to Franchise Guidelines (basis of measurement)

Over recent months Lloyd's has been working to define Risk Appetite as part of Solvency II developments. Where possible, the Franchise Board has sought to incorporate existing guidelines as their key risk appetite measures, including those stated in the original Chairman's Strategy Group document.

In order to ensure consistency across Risk Appetites and to bring the guideline statements in line with current market practice, the Franchise Board has agreed that those Franchise Guidelines that are currently based on capacity should be measured as a percentage of premium income from 2012. Lloyd's recognises that the impact of this change will vary across managing agents and as such, your UP Account Executive will be in contact to discuss the implications for your managing agency.

Interaction with ICAs

Where a provisional 2012 SBF has been submitted in July, the first ICA submission in July, including the pro-forma, should be based on that SBF.

For aligned syndicates, in the absence of a provisional 2012 SBF Return, the first ICA submission should be based on a roll over of the latest 2011 latest approved business plan in terms of premium volumes, exposures and loss ratios etc.

The final ICA should be submitted on 9 September for all syndicates alongside the final SBF. This is the dataset that the Lloyd's review will focus on. It is appreciated that this is earlier than the traditional submission deadlines for aligned syndicates, but the ICA Steering Group needs to review

and provide feedback to all managing agents by early October to allow Lloyd's and managing agencies to focus on Solvency II SCR requirements later that month. In order to facilitate this, all final SBF information needs to be submitted in September so that it can be considered alongside the ICA Return. The approval deadlines for final SBF returns will be late October/ November.

For further information on the implications of the timetable changes, including the de-linking of the final ICA and SBF approval processes and its impact on the November 2011 member capital process, please see Market Bulletin Y4467.

2012 SBF approval deadlines

The Business Plan Steering Group will provide feedback to managing agents by the following deadlines:

- Initial feedback provided on the provisional 2012 SBF submissions – 22 July 2011
- Approval of non-aligned syndicate final 2012 SBFs - 21 October 2011
- Approval of aligned syndicate final 2012 SBFs - 25 November 2011
- Coming Into Line - 28 November 2011

Additional information

Any queries relating to this Market Bulletin should be discussed with your UP Account Executive or sent by email to the business plan mailbox: Lloyds-businessplans@lloyds.com.

APPENDIX 1:**SBF changes summary**

For 2012 there will be several changes to the SBF Return.

1 Multi currency collection of data

Historically, the SBF Return has only been reported in US dollars (USD) and pounds sterling (GBP). In 2012, Euro (EUR), Canadian (CAD) and Australian dollars (AUD) will be added to SBF Form 051 to enable Lloyd's to analyse the split of income on a more detailed basis.

2 Distribution channels

Forms 100 (technical account) and Form 105 (underwriting performance forecast) will have additional sections for distribution channel information. Data will also be collected on Form 051.

The information collected here will replace the SBF lite Return (currently collected in November outside the Core Market Returns) and will bring all planning decisions into the same timeframe. Data requirements have been reduced when compared to the current SBF lite.

3 Ultimate written premium development by quarter

A new Form 106 will collect premium development by quarter. This will be used as a basis against which to monitor income as reported in the Performance Monitoring Data Return (PMDr).

4 Attritional, large and catastrophe loss ratio split

A new Form 107 will formally collect data that has traditionally been collated in the bridging analysis template as part of Form 990. The form breaks down attritional, large and catastrophe loss ratios for current (2011) approved SBF and the prospective year (2012) SBF. It also considers the factors that explain the difference between the current and prospective loss ratios e.g. rate change, claims inflation. The factors will be "the effect on the loss ratio" so may not be exactly the same amount as the pure rate change figure.

For example

- Current year loss ratio is 75% on £100 premium
- Rate increase of 50% (no other changes)
- Prospective year loss ratio is £75m loss / £150m premium = 50% loss ratio
- "Effect on loss ratio" of rate change is 25% improvement
- One of the factors is current year adjustments which will cover where the rate increase/premiums are different to the planned figures.

5 Unaccepted premium on a Solvency II basis by class of business

Columns have been added to Form 105 to collect unaccepted premium data on a brought forwards and carried forwards basis by class of business.

6 Tradable capacity

An additional field has been added to Form 420 for syndicates to note whether they have tradable capacity in the auction process.