LLOYD'S

Market Bulletin

Ref: Y5259

Title	**Economic Capital Assessment (ECA) Process for 2020 Underwriting Year of Account**
Purpose	To set out the ECA process for the 2020 underwriting year, including basis of calculation, and arrangements for distribution of the Member Modelling Software ('Member Modeller')
Type	Scheduled
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Date	11 July 2019
Deadline	See business timetable on Lloyds.com for all capital return submission dates
Related links	SCR Guidance Update 2020 (To be updated July 2019) (access via: Lloyds.com > Market Resources Capital-and-Reserving > Capital Guidance > Internal Model SCR ECA Guidance Manual (access via: Lloyds.com > Tools and Systems > Member Modelling Software)

Introduction

This Bulletin confirms the key process points to note for the setting and modelling of member capital for the 2020 underwriting year, during calendar years 2019/20.

Users of this Bulletin should also ensure that they are familiar with the fundamental process points set out in the ECA Guidance manual linked above.

Key Points to Note:

- *The SBF and LCR submission timetable is now staggered between 5 phases, as set out in Market Bulletin Y5253, to offer maximum flexibility within the constraints of business process deadlines.*

- *Special submission arrangements may be agreed via syndicate oversight managers, for syndicates conferred light touch status. These deadlines will still have regard to Auction and LOC deadlines.*
- *The requirement for syndicates to submit a High-Level Plan was removed this year, and hence the initial indicative Member Modeller release in mid-August will be based on a roll forward of 2018 data only, with no updated syndicate information. This will mean it is less predictive of final member ECAs than in recent previous years.*
- *The key change to the Member Modeller is an upgrade of the underlying Calculation Engine to improve stability, which should not change the user's experience.*
- *The LCR and SBF will be submitted via the Market Data Collection (MDC) platform. The Supplementary Questionnaire and Analysis of Change templates have been integrated into the LCR.*
- *The scheduled phased introduction of a limit on the proportion of Tier 2 (letters of credit) capital allowed by members within FAL continues as planned, with maximum exposure reduced to 70% of ECA from 1 December 2019. Full details on the implementation of these measures and those relating to covering solvency deficits were provided in Market Bulletin Y5177, dated 12 April 2018.*

Market Data Collection (MDC) Platform

The MDC platform is now live for both the LCR and SBF returns. The 2019 submissions made via the Core Market Returns (CMR) platform have been copied into MDC for reference. The Supplementary Questionnaire (SuppQ) and Analysis of Change (AoC) documents have been integrated into the LCR within MDC.

The 2020 LCR is expected to be made live within MDC by the 16th August. The LCR has been updated from the version seen in MDC for March 2019, this includes:

- *Additional requirement for one-year market risk data on form 314, plus split of interest rate risk into assets and liabilities;*
- *Additional requirement for post diversified contributions to capital by class within several forms of the SuppQ;*
- *Additional requirement for one-year mean values by risk category on form 520;*
- *Additional requirement for split of premium risk into stand-alone catastrophe risk and non-catastrophe risk on form 520;*
- *Several other warning and validation updates within the SuppQ to enable more accurate data collection.*

If you require access to the MDC platform, you should contact the MDC devolved administrator within your agency. If you have technical issues with the platform, then contact MDCSupport@lloyds.com. If you have queries about the LCR itself, please contact your MRC point of contact.

Submission Requirements

The deadline for LCR submission is 1pm on the date communicated to managing agents via their Oversight Manager. The full timetable and categorisation of Phase 1 to 5 syndicates is set out in market bulletin Y5253.

The LCR submission should be based on the same planned premium and reinsurance as the SBF submission.
The SCR Guidance provides information on the basis of reporting and principles, plus the requirements for managing agents to submit:

- *an LCR pro-forma (via MDC);*
- *an Analysis of Change (now in MDC - form 600);*
- *the SuppQ (now in MDC forms 400-500);*
- *a model methodology document for 2020 (attach to LCR via MDC);*
- *the syndicate specific return on Focus Areas (attach to LCR via MDC)*
- *the model change template, via SecureStore, up to 2 working days after the appropriate LCR submission deadline; and*
- *a full validation report in support of their SCRs, via SecureStore, up to 1 week following the appropriate LCR submission deadline.*

Further details on how to access SecureStore are available via Lloyds.com > tools-and-systems > secure-store

Major Model Changes
Managing agents applying for approval of 'Major Model Changes', at any time during the year, should contact their Syndicate Capital Point of Contact and provide the appropriate documentation to enable an assessment of the changes. Formal submission of Major Model Changes should be made, in line with the most recent Lloyd's guidance, to SCRReturns@lloyds.com with accompanying documentation to support the change. Whether or not a major change is being submitted, managing agents are required to submit a year on year analysis of change in the SCR and the model change template with the LCR submission.

Changes to Major Model Change submissions and requirements will apply from 1 Jan 2020 in accordance with the latest Model Change Guidance.

The Capital Setting Process for the 2020 Year of Account
The ECA Member Modelling Software ('Member Modeller') will be made available to registered users from 22 August. The Member Modeller will then be updated in accordance with the capital business timetable, recognising SBF and uSCR submissions, Capacity Auctions and Coming into Line (CIL) deadlines.

Syndicate SCR Review Process

The areas of focus for the review process are highlighted in Lloyd's guidance and market presentations, found in the related links section at the beginning of this bulletin.

Data
Managing agents should ensure that all data submitted to Lloyd's is internally consistent, i.e. between various forms. Often, certain items are submitted on different bases, as they are produced by separate teams within a managing agency or under separate processes.

Lloyd's, naturally expects consistency and agents will be notified of any discrepancies discovered within their submissions. Examples include, but are not limited to:

- *Reinsurance Contract Boundary (RICB) impact on Technical Provisions (TPs) as submitted in the Quarterly Solvency Return (QSR) and the Supplementary Questionnaire section of the LCR.*
- *Premiums and reinsurance in the LCR and SBF.*
- *TPs in LCR and QSR (including risk margin).*

Adjustments

<u>Reinsurance Contract Boundary Adjustments</u>

All agents are now required to model the RICB within their internal model and report the required adjustment to the uSCR on form 309 of the LCR, which should match the SuppQ and be consistent with the Quarterly Solvency Return (QSR).

<u>Economic Capital Uplift (ECU)</u>

Lloyd's will continue to apply an uplift to the minimum regulatory capital requirements to derive ECAs at member level.

Exchange Rates

LCR submissions should be based on 2020 SBF exchange rates (set as at 30 June 2019 and detailed in Market Bulletin Y5255). March 2020 LCR resubmissions should be based on 31 December 2019 year-end rates of exchange. Movement in exchange rates will be kept under review and Lloyd's will consult and advise of any proposed action due to material changes.

Update following 31/12/2019

Syndicates are required to ensure that their business plan and uSCR, agreed for year-end CIL, are kept under continuous review. If the LCR moves by more than 10% due to changes in syndicate risk profile at any point they should contact their MRC point of contact as a resubmission may be required. Syndicates are asked to proactively engage with the Lloyd's team if they are likely to have material change to their capital position.

Following year-end, all syndicates are required to re-assess their capital based on: actual balance sheet technical provisions based on audited QSRs, business plan changes, risk profile changes and rates of exchange. Lloyd's expects syndicates to formally re-run their models to assess the movement. A submission to Lloyd's of the template recording the movement in capital is required on the 24th of February 2020. If this return indicates a material (approx.10%) movement in capital, a full capital submission is required by 1pm on 2nd of March 2020. Whilst recognising the 10% threshold, Lloyd's reserves the right to request a capital resubmission, for the mid-year coming-into-line exercise, where having regard to all relevant circumstances it deems it appropriate.

Member Modeller

Given there is no high-level plan submission, the mid-August Member Modeller release will be based purely on a roll-forward of 2019 final business plans and rolled-forward reserves. This will mean it is less predictive of final member ECAs than in recent previous years.

Use of the Member Modeller

All requirements and registration forms for prospective new users are set out in the ECA Guidance manual. Existing users will not need to do anything unless you are an agent that changes its name or authorising Director.

Access

Lloyd's carries out an annual review of all users of the Member Modeller. Members' agents and managing agents are asked to advise Lloyd's, via the MRC helpdesk, of staff that have left their organisation or no longer need to access the software due to a change in responsibilities.

The Member Modeller only includes members that have active open year participations in the relevant modelling year, so does not retain any details relating to members that no longer have the need to calculate a capital requirement.

New Developments

The main change to the Member Modeller this year is the replacement of the underlying calculation engine. Users should not notice any change in functionality.

Members' Agent 'Publish' Requirement

All Members' agents will be required to publish their final member underwriting and capital requirements, and to electronically confirm that this is indeed the final CIL position

Training and Support

The ECA guidance manual provides information on the capital setting process.

An e-mail help mailbox will be in operation to deal with queries on the ECA process and software, and for other ECA related questions; please direct all queries to:

Lloyds-MRC-Help@lloyds.com

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