

VALUATION OF LIABILITIES
FOR LLOYD'S SOLVENCY PURPOSES

VALUATION OF LIABILITIES

INTRODUCTION

These rules are made by the Council of Lloyd's under paragraph 9 of the Solvency & Reporting Byelaw (No.13 of 1990) for the valuation of members' liabilities and as regards the valuation of general business liabilities. Lloyd's has consulted the Financial Services Authority on these rules. A syndicate's liabilities must also comply with sections 12.4 or 12.5, as appropriate, of the Lloyd's Sourcebook – note that next year these will be replaced by PRU 1.3 and PRU 1.2 respectively.

Members' underwriting liabilities are determined by reference to the liabilities of the syndicates on which they participate. The attribution of those liabilities to members for the purposes of the annual solvency test is undertaken by Lloyd's centrally. These rules therefore focus only on the determination of syndicate liabilities.

GENERAL INSURANCE BUSINESS

Equitas Reinsurance Ltd has reinsured all 1992 and prior general business liabilities with effect from 31 December 1995. The rules therefore relate only to the 1993 and subsequent years of account.

The basis of valuing liabilities is as follows:

- managing agents must determine solvency reserves in accordance with the rules set out below;
- managing agents must appoint an actuary (the Syndicate Actuary), who is in possession of a current Lloyd's Practising Certificate issued by the Institute of Actuaries or Faculty of Actuaries, to provide an opinion on those reserves, for each syndicate;
- where an unqualified actuarial opinion will or may not be available, the managing agent concerned must report to the Lloyd's Director of Finance and Risk Management. Solvency reserves in such a case will be determined by the Lloyd's Actuary who, after consultation with the Syndicate Actuary, will take the relevant facts of the syndicate's business and reinsurance arrangements into account when forming his opinion.

Any managing agent which is not able to secure an unqualified actuarial opinion on its solvency reserves for a particular syndicate will normally be subject to a monitoring review by Lloyd's Market Supervision Department.

Where it becomes apparent that there may be any difficulties in obtaining an unqualified actuarial opinion, or that the "Additional Comments" section of the opinion is likely to contain material issues, Lloyd's should be informed as soon as is practicable.

Section 11.3 of the Financial Services Authority's Lloyd's Sourcebook requires a minimum margin of solvency to be calculated at member level, known as the member's margin. The method for determining the member's margin is similar to that used for EC required minimum margin calculations, as adapted for the circumstances of members of Lloyd's. Those calculations are performed by Lloyd's centrally, and are outside the scope of these rules.

DETERMINING THE SOLVENCY RESERVE

1. The managing agent must, in respect of each syndicate managed by it, establish a solvency reserve for each year of account which became closed or remained open as at the solvency test date. Both a gross and net of reinsurance reserve must be established: the net of reinsurance reserve shall be the solvency reserve.
2. For the purposes of determining the solvency reserve for any year of account which has accepted a reinsurance to close, account must be taken of the liabilities associated with earlier underwriting years which have been reinsured into that year, and thus the solvency reserve will be the aggregate of all these years taken together. This solvency reserve will also include a reserve specifically for that latest year itself.
3. The solvency reserve in respect of any year of account which is being closed by reinsurance to close must be at least equal to the reinsurance to close premium.
4. The appropriate method of deriving the net of reinsurance reserve is by subtracting future reinsurance recoveries, less future reinsurance premiums, from the gross reserve. The rules for determining the gross reserves and reinsurance recoveries are set out below.

ACTUARIAL OPINIONS

5. As referred to above, the reserves determined for each year of account are required to be subject to an actuarial opinion in the form prescribed. Appendix A to these rules contains a copy of the Institute of Actuaries GN20 that was correct at 3 November 2004. The latest current version is always available from www.actuaries.org.uk. This assessment is to be performed in accordance with GN20. Although not mandatory, account should be taken of relevant advisory notes issued by the Institute and Faculty of Actuaries and the Code of Practice: "Management Of Reserving Risk" issued by Lloyd's. Please note, however, as set out in paragraph 16.15 of the syndicate return instructions, the actuary is no longer required to opine separately on net LCTF reserves and thus this line may be removed from the format of the actuarial opinion.
6. Provisions for future unallocated claims handling costs and provisions for reinsurance bad debts fall within the scope of the actuarial opinion.
7. Acceptable signatories to the actuarial opinion are:
 - fellows of the Institute of Actuaries;
 - fellows of the Faculty of Actuaries; and
 - fellows of the US Casualty Actuarial Society who are also members of the Institute of Actuaries or Faculty of Actuaries.
8. Signatories must hold a current practising certificate issued by the Institute of Actuaries or Faculty of Actuaries and may be either external consulting actuaries or employees of the managing agent.
9. The actuarial opinion includes a section entitled "Additional Comments" which allows the actuary to highlight material issues for the Council of Lloyd's attention. Such comments are intended to enhance the disclosures made in the opinion and do not constitute a qualification. Any matters which materially increase the degree of

uncertainty underlying the opinion beyond that which would reasonably be expected or which involve a material deviation from accepted actuarial methodologies would normally justify a reference in this section. Actuaries should not, however, assume that such additional comments are expected.

GROSS RESERVES

10. The gross reserve must not be less than the best estimate of the monetary amount which is expected ultimately to be payable in order to discharge all liabilities in respect of the underwriting year before taking reinsurance recoveries into account. It must include gross notified outstandings, incurred but not reported losses and provisions for future claims handling costs including the expenses of managing the run-off of the business. It should take account of inflation, currency exposure and any other factors which may influence the final monetary cost of settlement including any costs of borrowing that may arise. When assessing the cost of borrowing prudent allowance may be made for cash calls planned but not actually made at the valuation date.

A prudent allowance may be made for future premiums not yet accrued. However except to the extent that there is a legitimate set off against other liabilities, the liabilities arising from such future premiums to be received on any group of contracts should not be assumed to be less than those premiums. "Future premiums" in this context means those that arise on binding authority and lineslip contracts, where the underlying declaration has not attached as at 31 December; under IDA, the risk will be bound under the main contract to the 2004 (or prior) year of account. Credit should be taken for salvage and subrogation rights, net of any related bad debts.

11. For practical reasons, it should be assumed that the costs of handling gross claims and reinsurance recoveries should be included in the gross provision for Unallocated Claims Handling Expenses. Where it is reasonable and prudent to do so, the provision for unallocated future claims handling should be calculated on the practical assumption that each syndicate is a going concern. Otherwise, provision should be made on the basis that the syndicate has ceased or will cease trading, in whole or in part, as appropriate.
12. Discounting is not permitted when calculating reserves for solvency purposes.
13. The gross reserve should take into account the particular circumstances of the syndicate, any relevant statistical evidence and the judgement of the underwriter as to the eventual outcome of each year in question. Historical statistics may not, however, satisfactorily reflect a syndicate's exposure to significant losses. Accordingly, the incurred but not reported reserves must provide for circumstances where a syndicate is exposed to losses arising from one or more known major catastrophes or a known potential cause of loss.
14. Careful consideration must be given to ultimate exposures (irrespective of currently reported losses/current reserves) in respect of known catastrophes on any year of account, including events following the solvency test date affecting earlier underwriting years. Furthermore, if there is likely to be a greater than usual incidence of attritional losses, then appropriate reserves must be established.

15. If there are circumstances or an event that materially increases the uncertainty and makes estimation of the claim reserves particularly difficult for any year of account, then alternative approaches will need to be considered. Syndicates should have a clearly documented methodology and should be able to demonstrate reasoned judgements for the estimation of such liabilities. If the approach adopted for all or part of the reserves is not regarded as a generally accepted actuarial method then a comment should be made in the opinion and details given in the report. Claims reported or precautionary advices received to date should be monitored and reserved for in the usual way.

REINSURANCES

16. The deduction in respect of reinsurance recoveries should be the net monetary amounts which are expected ultimately to be received in respect of each year of account, net of related future reinsurance premiums. Such amounts should include any costs of borrowing necessary to cope with delays in reinsurance recoveries. An appropriate provision should be made for potential reinsurance bad debts.
17. Since the solvency reserves cover all relevant liabilities at the year end, the managing agent should be aware of the need to provide for the reinsurance premium cost of the protection of the liabilities covered by the solvency reserves, irrespective of the year of account to which the relevant reinsurance premiums will be charged. Care should be taken where a syndicate has contracts that provide protection over several years to ensure all future costs of reinsurance are properly allocated to the year of account they are protecting so that the solvency reserve is not underestimated. Where the reinsurance has not yet been purchased, the appropriate provision for future reinsurance premiums should be no less than the reduction in liabilities which has been assumed from that reinsurance cover. This could be particularly important where reinsurance is placed on the basis of losses occurring during the year of account and when policies are written for periods in excess of one year or under binding arrangements. Recoveries under a stop loss contract should not be used to offset this charge if the recoveries could not be relied upon if the syndicate went into run-off.
18. The reinsurance bad debt reserve will include appropriate amounts in respect of reinsurance disputes as well as reinsurer insolvency. There is potential for these amounts to increase significantly, as well as gaps occurring in the reinsurance cover when the circumstances or an event as envisaged in paragraphs 14 or 15 occur. The reinsurance bad debt reserve should also cover all stop loss reinsurance contracts.
19. Lloyd's security should be treated as 100% recoverable except for an allowance where considered appropriate for reinsurance disputes between different Lloyd's syndicates which should not be confined to identified disputes.
20. Reinsurances should be assessed in accordance with the principles of Financial Reporting Standard 5. That is, if the contract is in the nature of an investment it must be treated as an asset and valued for solvency purposes at its net present value; alternatively, if it is a contract of reinsurance, it should be treated as such. Some reinsurance contracts have large profit sharing elements attaching to them, which are clearly financial elements. For these contracts the profit commission should be treated as a financial element and therefore as an asset and valued for solvency purposes at its net present value.

NO ACTUARIAL OPINION

21. Where an unqualified actuarial opinion is not available for any particular year of account, including any year which has earlier underwriting years reinsured into it, the managing agent concerned will need to seek further instructions from the Lloyd's Director of Finance and Operations. In particular, the Lloyd's Actuary, after consultation with the Syndicate Actuary, will determine a solvency reserve for each year of account in respect of which an unqualified opinion is not available.

US & CANADIAN DOLLAR, AND EURO BUSINESS

22. The estimated liabilities on United States and Canadian dollar currency accounts must be calculated in these currencies, in accordance with the rules set out above. Similarly, the estimated liabilities in respect of business denominated in Euro must be determined.
23. The pre-1 August 1995 LATF is not specifically covered by any of these opinions, at least not in isolation. New York Insurance Department (NYID) had previously satisfied itself as to the level of reserves in the LATF, on the basis that reserves were established at the higher of (old) Test 1 and Test 2.
24. Since the Test 1 arrangements have effectively been withdrawn, NYID needs some further comfort as to the adequacy of the LATF reserves. Accordingly, the UK actuarial opinion addresses the breakdown of the net reserves for each year of account, so as to identify separately amounts attributable to the pre-1 August 1995 LATF.
25. US and Canadian dollar liabilities, and liabilities in Euro must be converted into sterling at the rates of exchange prevailing at the close of business on the effective date of calculation. These rates of exchange will be determined and notified to the market early in the following year.

RESPONSIBILITIES OF SYNDICATE AUDITOR AND SYNDICATE ACTUARY

26. The syndicate auditor's responsibility with respect to the determination of the solvency position of each syndicate is unchanged, notwithstanding the requirement for an actuarial opinion on the solvency reserves. In other words, the syndicate auditor is required to submit the prescribed audit report on the syndicate return in the usual way.
27. The auditor will, however, be able to place reliance on the actuary's opinion, in accordance with the appropriate professional guidance.
28. Where no unqualified actuarial opinion is available, this may have implications for the syndicate auditor's report and accordingly, the actuary and auditor will need to liaise closely and report to Lloyd's as soon as any difficulties are identified.
29. Where it becomes apparent that there may be any difficulties in obtaining an unqualified actuarial opinion, or that the "Additional Comments" section of the opinion

is likely to contain material issues, Lloyd's should be informed as soon as is practicable once advisers will have discussed matters with their client.

LIFE BUSINESS

30. A syndicate with long term insurance liabilities must comply with section 12.5 of the Financial Service Authority's Lloyd's Sourcebook. Paragraph 12.5.3 requires that the managing agent must appoint a Syndicate Actuary to certify the reserves for life business using the form of opinion approved for this purpose. The basis and method of the calculations are set out in the remaining paragraphs of that section.

GN20: Actuarial Reporting under the Lloyd's Valuation of Liabilities Rules

Classification

Practice Standard

MEMBERS ARE REMINDED THAT EVERY GUIDANCE NOTE MUST BE READ IN THE CONTEXT OF THE PROFESSIONAL CONDUCT STANDARDS (PCS)

Legislation or Authority

Lloyd's Act 1982 (1982, c.14)

FSA Handbook LLD 10.9

FSA Handbook LLD 15 Annex 3R

Lloyd's Solvency and Reporting Byelaw.
(Byelaw No 13 of 1990, as amended)

Lloyd's Valuation of Liabilities Rules, issued annually.

Application

Actuaries appointed by Lloyd's managing agents to provide an actuarial opinion in support of general insurance solvency reserves as required by the Lloyd's Valuation of Liabilities Rules. (There are also requirements for life syndicates to obtain actuarial opinions, but these are outside the scope of this guidance note.)

Author

General Insurance Board

Status

Fast Track amendment

<i>Version</i>	<i>Effective from</i>
1.0	01.02.1994
2.0	01.03.1995
3.0	01.06.1996
4.0	01.12.1997
4.1	01.11.1998
5.0	01.11.1999
6.0	01.01.2003

1 Introduction

- 1.1 Lloyd's syndicates writing general insurance business are required to provide to the Council of Lloyd's each year for solvency purposes a Statement of Actuarial Opinion (SAO) on their world-wide reserves, both gross and net of reinsurance. A copy of this opinion is required to be sent to the International Insurers Department (IID) of the National Association of Insurance Commissioners (NAIC).
- 1.2 This note applies to any actuary instructed by a Lloyd's managing agent ("the Managing Agent") to provide such an SAO. The actuary must be familiar with the relevant version of the Lloyd's Valuation of Liabilities Rules and any other instructions issued by Lloyd's for this purpose. In addition, the actuary should have regard to any relevant detailed technical advice issued by the General Insurance Board, contained in the latest version of the Advisory Note for Actuarial Reporting under the Lloyd's Valuation of Liabilities Rules ("the Lloyd's UK Advisory Note") which relates to the SAO. If the actuary has questions concerning the interpretation of the instructions issued by Lloyd's, then he or she should seek clarification from the Lloyd's Actuary.
- 1.3 An actuary must not sign an SAO unless he or she possesses a Certificate to provide UK Actuarial Opinions for Lloyd's Syndicates, issued by the Institute or the Faculty of Actuaries. This certificate must be valid as at the date the SAO is signed.
- 1.4 The nature of the opinions required by the Council of Lloyd's is such as to place a high level of responsibility on the profession. In addition to the requirements set out in paragraph 1.3, the actuary must consider in relation to the Professional Conduct Standards whether he or she has sufficient experience to justify undertaking the assignment. This should include knowledge of the business procedures of Lloyd's and of types of business similar to those underwritten by the syndicate.
- 1.5 A specimen SAO for the combined gross and net opinions is provided in Appendix 1 to this note. While it is expected that this will be used as a model, modifications may be necessary to suit particular cases including any changes referred to in the Lloyd's UK Advisory Note.

2 Reporting Requirements

- 2.1 The SAO should, subject to paragraph 5.8 below, cover all the business of the syndicate for all years of account from 1993 to date. Separate figures are required gross and net of reinsurance for each economic entity, ie each open syndicate year of account, including all years that have been reinsured into it, treating as a separate entity any year of account being closed at the year end. The reserves to be covered by the SAO should include claims handling expenses (both allocated and unallocated) and, in the case of the net reserves,

an allowance for reinsurance bad debts. The allowance for reinsurance bad debts should include amounts both in respect of reinsurance disputes and reinsurance insolvency. The reserves should include allowance for future inflation of claims costs but should not be reduced in anticipation of future investment income on assets supporting the reserves. Additional contingency margins are permitted but not required. The SAO will need to be modified appropriately if there are run-off years of account.

- 2.2 The SAO must be supplemented by a separate management report (“the Report”), addressed by the actuary to the Managing Agent. The Report should state for whom it is intended and the extent, if any, to which it may be distributed to third parties other than Lloyd’s and the UK Supervisory Authority.
- 2.3 The purpose of the Report, which is a formal report for the purposes of GN12, is to explain the work done by the actuary in order to reach the opinion on the reserves. It is expected that, in most situations, this work would include independent estimation of the reserves and comparison with those established by the syndicate. In other situations, the actuary’s work may not include independent estimation of reserves, but rather constitute a review of the methodology and assumptions used by someone else (e.g. the syndicate’s own actuarial or other staff) in estimating the reserves. This practice is acceptable, provided the actuary signing the SAO is willing to accept personal responsibility for the opinion stated, based on the work reviewed. In these situations the Report should include an explanation of the work performed by the actuary signing the SAO and include details of the work performed by the other party.
- 2.4 The actuary should make clear the purpose of the Report and that it should not be used for purposes for which it is not intended. In particular, if it is not suitable or intended to provide support for calculation of the Reinsurance to Close, then this should be made clear.
- 2.5 The Report should address the key issues. Together with the files, it should be sufficient to allow any other suitably experienced actuary to form a view as to the appropriateness or otherwise of the work carried out. Another actuary should be able, by referring to the Report and files, to reproduce the reserves without access to the signing actuary. The Report alone need not be in the detail to allow another actuary to reproduce the reserves, but it should be in sufficient detail for another actuary to be satisfied that sufficient work has been done to enable the original actuary to sign the SAO. In particular, if there are any material incongruous results or subjective judgements, the Report should make clear what the actuary has done in order to be satisfied that it was proper to sign the SAO.
- 2.6 If the actuary, following discussion with the Managing Agent, believes that an SAO can be provided but only with qualifications, then the actuary may still prepare the SAO, using the relevant form of words contained in the Specimen SAO in Appendix 1, but modified to reflect the qualification,

which should make clear to which figure or figures it relates. In this case, the actuary should also prepare the separate Report. It should be recognised that in these circumstances Lloyd's may not accept the SAO and the Managing Agent may ask the actuary to discontinue work. Any qualifications must appear in the SAO; it is not sufficient for a qualification to appear only in the report.

3 Relationships

- 3.1 The relationships between managing agents, underwriters and auditors to syndicates can be complex. The actuary should make clear his or her relationship with each of these parties and the extent to which he or she has used information obtained from them or relied on work undertaken by them. The actuary should not rely on the auditor unless there is a specific agreement for such reliance.
- 3.2 It is the responsibility of the Managing Agent to set the reserves. The role of the actuary is to provide an opinion on those reserves. The professional responsibilities of the actuary in providing the SAO override any responsibilities he or she might have as an employee or consultant.
- 3.3 The actuary should make clear at the outset that he or she may require frequent access to underwriters and other members of the Managing Agent's staff, and may wish to use work carried out by or for the Managing Agent, including the work of any other actuary who has worked for the Managing Agent as an employee or consultant. However, since the actuary providing the SAO must take full responsibility for the opinion stated, he or she must be satisfied as to the validity of the material used for that purpose.
- 3.4 Although the actuary is required to submit a detailed report to the Managing Agent, he or she is not required to communicate formally with the board or other governing body in respect of the provision of the SAO.
- 3.5 The SAO is intended solely for the purpose of complying with the Lloyd's Valuation of Liabilities Rules. Unless the actuary otherwise agrees, reliance on the SAO for any other purpose should normally not be permitted.

4 Data

- 4.1 The actuary should obtain assurances from the Managing Agent as to the accuracy and completeness of the data provided the actuary should review all key data for reasonableness but may otherwise rely upon the Managing Agent in this respect. The actuary will need to amend the wording of the reference to data in the specimen SAO given in Appendix 1, if he or she encounters anything during the course of the work that gives rise to any material concerns with regard to the accuracy of the data, and the Managing Agent is unable to resolve these concerns satisfactorily. A specimen Data Accuracy Statement (DAS) from the Managing Agent is given in Appendix 2. If there are any material data discrepancies or anomalies that cannot be

resolved with the Managing Agent, the actuary should discuss them with the auditor. In some circumstances, it may be necessary to modify the wording of the specimen DAS given in Appendix 2.

- 4.2 Should the data prove to be incomplete, inaccurate, unreliable, or not as appropriate as desired, the actuary should consider whether the use of such imperfect data may produce material biases in the results of the investigation and make appropriate allowances. If the data are so inadequate that they cannot be used to carry out the work necessary for the SAO, even on a very conservative basis, the actuary should decline to provide an SAO.

5 Valuation Principles

- 5.1 In order to be able to provide an SAO, the actuary needs to be satisfied that the reserves held by the syndicate are at least as large as those calculated by applying generally accepted actuarial methods and using assumptions that he or she considers reasonable.
- 5.2 The reserves calculated by the actuary for the purpose of forming the opinion must be at least as large as those implied by a “best estimate” basis without precautionary margins. If, however, the Managing Agent has set reserves materially higher than those indicated by such a basis, the actuary may still provide the SAO without qualification. In this context, the term “best estimate” is intended to represent the expected value of the distribution of possible outcomes of the unpaid liabilities. This definition is intended to clarify the concept but it will generally be impossible to apply it directly in practice. Note, however, that where the Lloyd’s Valuation of Liability Rules prescribe a basis that is stronger than best estimate for certain elements of the reserve calculation, as described in paragraph 5.10, below, then the actuary must follow the rules in respect of those elements.
- 5.3 In classes which have historically shown a tendency to give rise to latent claims, the actuary should, in the absence of evidence to the contrary, assume continuation of that tendency, but need not allow for the emergence of unanticipated major new types or classes of claims.
- 5.4 The SAO covers open and hence immature years. In some cases the available historical data may be insufficient to enable the actuary to use conventional projection techniques. Benchmarking and methods such as the Bornhuetter-Ferguson method are generally accepted actuarial techniques although the actuary would need to have sufficient information to be satisfied that the benchmarks were reasonable for the business written. Alternative approaches might include obtaining a detailed understanding of the differences between the business included in the benchmark and the business written, and making appropriate adjustments. If the actuary has sufficient doubts as to the suitability of the benchmarks, he or she should amend the wording of the SAO appropriately. Where the actuary’s results place material reliance on estimates (of, for example, changes in premium rates or in the mix of business) provided by underwriters or employees of the Managing

Agent, then the actuary should take steps to confirm the quality of this information.

- 5.5 The net solvency reserve included in the SAO must include provision for reinsurance bad debts and claims handling expenses (both allocated and unallocated). The gross solvency reserve included in the SAO must also include provision for claims handling expenses (both allocated and unallocated). For each economic entity, the SAO relates to the total reserves including these provisions, where relevant, and does not apply to each element separately. Since future premiums are also being projected and the actuary would normally take credit for this in the SAO, it is important that the actuary verifies that any required bad debt provision for this element is made.
- 5.6 In the case of the net reserves, the actuary is required to give an opinion on the reserves of each economic entity for the overall reserves and separately for business denominated in Canadian dollars and for business denominated in US dollars and written up to 31 July 1995. The Lloyd's Valuation of Liabilities Rules may contain further requirements including reporting of Euro denominated business. In other respects, the actuary is not expressing an opinion on the split of the reserves by class, year of account or currency. These Canadian and US dollar reserves must include appropriate provision for reinsurance bad debts. They should also include provision for claims handling expenses where such expenses are expected to be incurred in these currencies.
- 5.7 Under the Lloyd's Valuation of Liabilities Rules, discounting is not allowed when calculating reserves for solvency purposes. However, if the syndicate is expected to be a net borrower, additional reserves may be needed to cover borrowing costs because of the need to fund claims (and other) costs in advance of premium receipts or reinsurance (or other) recoveries.
- 5.8 In some circumstances the actuary may be asked by the Managing Agent to provide an SAO on a subset of the reserves to which it is intended to apply. In most situations, this is likely to be unacceptable to Lloyd's. However, there may be specific reasons for excluding certain items from the scope of the SAO, for example contracts that are subject to ongoing dispute over coverage. The actuary may agree to this, as long as the exclusions are made clear in the SAO.
- 5.9 Since, subject to paragraph 5.8 above, the opinion covers all relevant liabilities at the year end the actuary should be aware of the need to provide for the cost of the reinsurance protection of the liabilities covered by the opinion, irrespective of the year of account to which the relevant reinsurance premiums will be charged. For example, this could be particularly important where reinsurance is placed on the basis of losses occurring during the year of account or when policies are written for periods in excess of one year or under binding arrangements.

- 5.10 The Lloyd's Valuation of Liabilities Rules may prescribe bases for certain elements of the gross or net reserve calculation. Examples are the requirement that no profit be anticipated on premiums that are unwritten as at the date of signing the opinion; also, the provision for the future cost of reinsurance cover in respect of unearned premium be no less than the reduction in liabilities which has been assumed from that cover. This list is not exhaustive and may change from time to time. It is the responsibility of the actuary to ensure that he or she is aware of all prescriptive elements of the Lloyd's Valuation of Liabilities Rules. Where the actuary believes that the rules for certain elements of the reserve calculation require a basis that is stronger than best estimate, he or she cannot take any offsetting benefit by adopting a weaker than best estimate basis for the other elements of the reserve calculations.
- 5.11 If there are specific features of the business or the claims that significantly increase the uncertainty, beyond that which a reader of the accounts would reasonably expect, then a comment to that effect should be included in the SAO. In addition, if for some or all elements of the reserves the actuary has adopted a methodology which is materially different from generally accepted actuarial methods, then reference should be made to this in the "Additional Comments" section of the SAO and in the Report.
- 5.12 The actuary may be asked by the Managing Agent to carry out some of his or her work as at a valuation date prior to the SAO valuation date. In all circumstances, the actuary must carry out sufficient work, using data as at the SAO valuation date, in order to be satisfied that he or she can sign the SAO. In addition, the actuary should ascertain from the Managing Agent whether there have been any material events between the valuation date and the date of signing the SAO, and make an appropriate adjustment to the reserves for such events. If there is insufficient time to make such an adjustment, then the actuary may need to draw attention to this in the SAO.

Appendix 1: Opinion on Solvency Reserves

To: Council of Lloyd's / International Insurers Department

Statement of Actuarial Opinion - Syndicate KLM

Identification

I, ABC, am an actuary employed by XYZ [the Managing Agent.]

Or

I, ABC, am associated with the Firm of GHI Consulting Actuaries who have been retained by XYZ [the Managing Agent.]

Qualification

I am a Fellow of the [Casualty Actuarial Society and an Affiliate of the] Faculty/ Institute of Actuaries and possess a certificate valid as at the date of this Opinion to provide UK Actuarial Opinions for Lloyd's Syndicates, issued by the Institute /Faculty of Actuaries.

Scope

I have examined the reserves listed below for the underwriting years 1993 to [current year] of Syndicate KLM as at 31st December [current year], as reported in Form(s) SR16 "Analysis of Solvency Reserves" submitted by the Managing Agent. I have reviewed the reserves shown in lines 6 (column 1), line 10 (columns 1 and 4), line 11 (column 3), line 17 (column 1) and line 18 (column 1) for each relevant year of account. [The form references may need to be changed, if the relevant forms are altered. The actuary should refer to any relevant instructions issued by Lloyd's.]

The reserves are the responsibility of the Managing Agent; my responsibility is to express an opinion on those reserves based on my review.

	[current year]	[current year -1]	[current year -2]
Total gross reserves (Conv £000's)			
Reported net outstanding claims			
Net IBNR Claims and Unexpired Risks			
Total reserves net of reinsurance (Conv £000's)			
CAN dollar (C\$000's)			
LATF (US\$000's)			

NB: "Conv £" figures above are converted at [£1 = US\$ a.aa = C\$ b.bb = Euro c.cc]

[NB: The table may need to be amended if, for example, there are old open years of account]

The preceding reserves are for indemnity amounts and claims handling expenses (both allocated and unallocated) and include provision for future claims arising from unexpired periods of risk. They are net of salvage and subrogation, and of anticipated future premiums (net of acquisition expenses) on past and current business. They are not discounted for the time value of money. The net reserves, Canadian Dollar reserves and the LATF reserves include a provision for reinsurance bad debts, where appropriate.

I have relied upon data prepared by the responsible employees of the Managing Agent. These data have not been checked by me, although the Managing Agent has confirmed that the data supplied to me are accurate and I have reviewed all key data for reasonableness. In other respects my examination included the use of such actuarial assumptions and methods and such tests of the calculations as I considered necessary.

[If the actuary did not carry out independent calculations for the purposes of providing the SAO, but rather reviewed the methods and assumptions used by the Managing Agent in determining the reserves, then wording similar to the following may be used (in place of the final sentence of the previous paragraph):

"In other respects my examination included such review of the methods and assumptions used and such tests of the calculations made as I considered necessary."]

[Additional Comments

Other comments at the discretion of the Actuary.

These additional comments do not constitute a qualification of my opinion.]

Variability

In evaluating whether the reserves make a reasonable provision for unpaid claims and claims expenses, it is necessary to project future premium, claim and claim handling expense payments. Actual future premiums, claims and claim handling expenses will not develop exactly as projected and may, in fact, vary significantly from the projections. Further, in most classes of business, the scope for adverse development exceeds the scope for favourable development. In particular, although I have made what I believe to be a reasonable allowance for the risk of adverse development, I have not anticipated the emergence of major new types or classes of claims, nor the emergence of any major new reinsurance disputes.

Opinion

In my opinion, subject to the above comments [and except for the qualifications stated below], the technical provisions identified above comply with the Lloyd's Valuation of Liabilities Rules and each is no less than the expected future cost of the corresponding claims and claims handling expenses net of anticipated future premiums for which Syndicate KLM was liable at 31st December [current year].

[Qualifications on Opinion]

Other comments at the discretion of the Actuary.]

An actuarial report, supporting the findings expressed in this statement of opinion, has been [will be] provided to the Managing Agent.

This statement of opinion is solely for the use of, and to be relied upon only by the following:

1. the Managing Agent, the syndicate auditors, the Council of Lloyd's and their auditors for the purpose of compliance with the Valuation of Liabilities Rules, and
2. the Managing Agent and International Insurers Department for the purposes of compliance with IID/NAIC regulatory requirements.

Signed:

Name:

Fellow of the Faculty/Institute of Actuaries (or Fellow of the Casualty Actuarial Society and Affiliate of Faculty/Institute of Actuaries)

Date:

Address:

Appendix 2: Data Accuracy Statement

I, _____, _____, hereby affirm
Name Title

that the listings and summaries of premium and claims data (including indemnity and expense amounts)

regarding _____ as at _____ and other
Syndicate KLM Valuation Date

relevant data and information (including details of reinsurance disputes and

reinsurance bad debts) provided to _____ were
Actuary's name and firm

prepared under my direction and, to the best of my knowledge and belief, are accurate and complete [except where advised otherwise].

Signed: _____ Date: _____