

FROM: Head, Market Risk and Reserving Unit, EXTN: 5235
DATE: 5 November 2004 REF: Y3422
SUBJECT: **FINAL RBC AND FAL RATIOS**
SUBJECT AREA(S):
ATTACHMENTS:

ACTION POINTS: **Managing Agents, Members' Agents, Lloyd's advisers and direct corporate members to note arrangements for the application of the final RBC ratios**

DEADLINE(S): **None**

Introduction

Final capital ratios will be issued on Monday 8 November in advance of the coming-into-line deadline of Friday 26 November. The risk based capital ("RBC") timetable has been structured to ensure that the most current data feeds are used in the final release, but it is recognised that there may be late member participation changes, including trades in auction 4, capacity discarded and 'drop' taken up. Participation data reflects changes due to approved syndicate pre-emptions and de-emptions, and trades in the first 3 auctions. Agents and Direct Corporate Members should check participation files and use the 8th November version of the software to model the capital effects of changes in respect of late movements in member participations.

In the exceptional circumstances that a wholly aligned syndicate has been permitted by the FPD to submit a late business plan change (after 1 November), this will not be reflected in this software release and it is the responsibility of the managing agent to calculate the correct capital requirement using the RBC software.

Application

Subject to the above, the FAL requirements issued on 8 November or derived from the software issued on the same date should be used for coming-into-line and these requirements supersede all indicative ratios / software releases issued earlier. It should be noted that for this year the £10,000 banding provision has been removed. As in previous years, the FAL percentage ratios have been rounded down to one decimal place. For example, where the FAL ratio is 55.49% the figure to be used for calculating the coming-into-line requirement would be 55.4%. The FAL ratios also reflect the minimum capital requirement of 40% for the 2005 year of account, with the exception that the minimum capital ratio for portfolios comprising at least 85% direct UK motor will continue to be 35%. Agents are referred to Market Bulletin Y3371 issued on 10 August 2004 (re-issued on 26 October 2004 as Y3418) which sets out the membership and underwriting requirements for the 2005 coming-into-line exercise and also Market Bulletin Y3400 issued on 30 September 2004, which provides additional guidance on the credit which can be taken for the 2003 Continuous Solvency Adjustment.

Coming-into-Line - main points

- There will be no Continuous Solvency Credit based on 2004 allocated premium limit ("APL") for use towards satisfying a member's RBC requirement for the 2005 coming-into-line (CIL) exercise.
- Care should be taken to avoid a double count of unused Continuous Solvency Transfers in respect of the 2002 & 2003 years of account (See Bulletin Y3371).
- Unlimited liability members may utilise OPW, up to a maximum of 10% for 2005 CIL, but it will be removed completely for 2006.
- Liquidity cash call ("LCC") credits have been discontinued as the liquidity pressures that syndicates were experiencing, in previous years, generally no longer exist.
- Individual members who converted (or group corporate members that have consolidated) may re-calculate the set-aside funds of the ceasing member(s) by reference to solvency data as at 31 December 2003, subject to the normal rules. The amount of interavailable funds will, however, be restricted to cover the RBC on pre-conversion / consolidation years.
- Members will no longer be permitted to offset assets that have been disallowed for breaching the concentration limits against solvency deficiencies, for the purposes of the coming-into-line calculation.

Bi-annual Coming-Into-Line

From 2005, members will be required to come into line in May/June based on their 31 December 2004 year end solvency position and their revised Risk Based Capital position taking into account the most up to date member and syndicate data. Further details on the implications of this mid-year coming-into-line will be issued in due course. In particular, syndicates may be required to submit an updated 2005 business plan in advance of this exercise.

Any queries relating to the coming-into-line rules should be addressed to either Kevin Nethersell (ext. 6253) or Mike Steer (ext. 5709).

Software

RBC software will also be released on 8 November. Agents are referred to Market Bulletin Y3319 issued on 24 May 2004 for further information relating to the RBC software and process for the 2005 year of account. The software will permit agents to reflect any late breaking portfolio changes including activity in Auction 4 on the 18 and 19 November. Agents should note that any portfolio changes should be modelled in the RBC software and if there are insufficient funds available for the aligned member to take up dropped capacity then underwriting must be scaled back as appropriate.

Agents will need to have calculated the member's capital requirements prior to entering Auction 4 and should also note that subscription bids may only be entered if the FAL necessary to support such additional underwriting has been put in place prior to commencement of this final auction.

RBC Forecasting Spreadsheet (Managing Agents only)

Earlier in the year the MRRU supplied an RBC forecast spreadsheet based on business plans submitted up until the end of July. The spreadsheet model is a tool designed to assist Managing Agents in forecasting capital requirements in future years. The input requirements for this model (such as planned syndicate reinsurance spend) restricts its use to Managing Agents only.

There has been very limited feedback on the tool despite it being produced at the request of Managing Agents. MRRU have decided not to make a revised version of the tool (updated for final approved business plans) available with the usual downloads for the RBC modelling software. However, agents who would like to receive a revised version should e-mail the RBC helpdesk at the address given below.

Any queries on this bulletin can be referred to Neil Wells (ext. 6034), Peter Tavner (ext. 5812) or Kevin Barnes (ext. 5683) in the Market Risk and Reserving Unit. Alternatively, agents with a Market Mail connection should access "Lloyds-RBC-Help"; the full e-mail address is <mailto:Lloyds-RBC-Help@lloyds.com>

This bulletin is being sent to all underwriting agents, corporate members and to market associations, including the ALM, for information.

Henry Johnson
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