

MARKET BULLETIN

From	Chairman, ICA Steering Group
Date	2 January 2007
Reference	Y3938
Subject	Capital setting: Strategy for 2008, Syndicate ICA Reviews
Subject areas	Market Briefing on capital strategy for 2008, feedback on 2007 ICA review process and basis for 2008 ICAs
Action points	Agents to respond by email re attendance at presentation on 25th January
Deadlines	12th January 2007

Introduction

This bulletin sets out some key issues currently being considered for 2008 capital setting, details of a Market Briefing to be held on 25th January 2007 and the proposed timetable for the feedback and review of the 2007 ICA process between Lloyd's and Managing Agents.

Market Briefing on capital strategy for 2008

As last year, a briefing session for all Managing Agents will be held to discuss proposed changes and capital strategy for 2008. This will take place on Thursday 25th January 2007 in the Old Library at 4.00pm. Please note that this briefing is taking place ahead of Franchise Board making formal decisions on capital setting for 2008, but timing is such that we consider it is more useful to share management's views with the market as soon as possible. The briefing will also advise Managing Agents of the proposed timetable for 2008 ICA submissions and provide some market statistics and analysis of the final 2007 ICAs and economic capital assessments.

Lloyds is currently reviewing issues for 2008 capital setting. For information, topics already identified include the following:

- Timetable
- Basis for Economic Capital Uplift

- Updating of Guidance with proposed rationalisation of minimum standards
- Use of benchmark and a capital corridor
- Level of recognition of future profits, reserve margins, discounting of reserves and any margin within SBF loss ratios
- Level of key template information to be provided, and mapping to the key assumptions used in the ICA
- Level of prescription on format of ICAs and mapping to Guidance and minimum standards

Progress made on these and any other issues arising will be advised to Managing Agents as part of the Market briefing session on 25th January 2007. The 2007 Guidance on ICAs will be amended and updated where relevant following resolution of these issues but Lloyd's will endeavour to keep changes to a minimum.

The briefing will focus on the process for active syndicates but run off agents are welcome to attend as are Members Agents and professional advisers, subject to space. All those wishing to attend are requested to respond by email to lorraine.harfitt@lloyds.com advising attendees by no later than 12th January 2007. Please note that space is limited and we suggest that there are no more than three attendees per Managing Agent.

Feedback on 2007 ICA Review Process

Now that the 2007 ICA review process has been completed, Lloyd's is currently reviewing issues arising from the process ahead of the 2008 ICA submissions. The issues raised by Lloyd's ICA Review Teams will be looked at in conjunction with issues arising from the FSA's consultation paper 06/16 "Prudential Changes for Insurers".

Lloyd's appreciates that specific feedback needs to begin as early as possible to allow agents the maximum time available to implement any revisions required to their ICA process for 2008 and therefore all ICA team leaders will be conducting specific feedback meetings with agents during January and February. Lloyd's will then work on an ongoing basis with the agent to resolve these as far as possible before the 2008 ICA submission. However, as general feedback on the process, Lloyd's would like to recognise that significant improvements have again been made in ICA submissions this year. Lloyd's is grateful for the level of cooperation and commitment shown by Managing Agents in this process.

Lloyd's also appreciates that there may be matters arising from the 2007 process that agents wish to raise and Lloyd's would welcome such feedback from Managing Agents. If agents wish to provide feedback, they should do this via their ICA team leader.

In order to ensure continuity of process, wherever possible, ICA Review Team Leaders will remain with the same agents for both the feedback process and the 2008 ICA reviews.

However, due to staff changes and workload allocations there may be some changes and these will be advised as soon as possible.

Basis for 2008 ICAs

The Market Bulletin which accompanied the 2007 ICA Guidance and Instructions document (Y3770) advised agents that Lloyd's were reviewing two key areas with regards to the 2008 ICA process and undertook to advise agents of the outcome of these as soon as possible.

The first issue related to the need to move to a multi year basis for 2008. Following discussion with the FSA, Lloyd's would like to advise agents that a multi year basis will not be required for 2008 ICAs - as for the 2007 process, ICAs will be required to provide a 1 year number at a 99.5% confidence level.

Lloyd's has also considered the need for all ICAs to use some degree of stochastic modelling for 2008 and would like to advise agents that this will not be compulsory. Stress and scenario based ICAs will continue to be acceptable for the 2008 process where the agent is able to satisfy Lloyd's that the stress and scenario tests undertaken are appropriate to their business and are sufficiently extreme to represent a 99.5% confidence level.

If you have any enquiries about the content of this bulletin please contact Lorraine Harfitt (lorraine.harfitt@lloyds.com).

This bulletin has been sent to all Managing Agents and to Market Associations, Members' Agents and Direct Corporate Participants for information.

John Parry
Chairman
ICA Steering Group