

# MARKET BULLETIN

REF: Y4078

**Title** FINAL ECA AND FAL RATIOS

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**Purpose** To advise market of final ECA software release

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**Type** Scheduled

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**Date** 13 November 2007

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**Deadline** None

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**Related links**

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## Introduction

Lloyd's would like to once again thank managing agents for their cooperation throughout the ICA review process.

Final capital ratios were issued on Thursday 8 November in advance of the coming-into-line deadline of Thursday 29 November. The Economic Capital Assessment ("ECA") 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 (15 and 16 November 2007), 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.

The business plan approval deadline for aligned syndicates has been moved back to 23 November this year. The ECA software reflects the syndicate business forecast submitted in October and the latest agreed position with regard to the ICA. Where there are changes to business plans and / or the syndicate ICA for non-single member aligned syndicates following the software release, the MRC can advise on member level ECA requirements and provide software updates if required.

### **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. 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 2008 year of account, with the exception that the minimum capital ratio for member portfolios comprising at least 85% EU motor will be 25%. Agents are referred to Market Bulletin Y4067 issued on 10 October 2007, which sets out the Membership and Underwriting Requirements for the 2008 coming-into-line exercise.

### **Bi-annual Coming-Into-Line**

As in previous years, members will be required to come into line in June 2008 based on their 31 December 2007 year end solvency position and their revised Economic Capital Assessment position, taking into account the most up to date member and syndicate data. Although the ECA will not be based on scheduled June 2008 submitted business plans, it will reflect changes where managing agents have been required to re-submit business plans and ICAs for material changes in circumstances subsequent to 2008 coming into line. The ECA will also reflect closure of syndicates by RITC contract as at 31 December 2007. As in 2007, exchange rates for all years of account will be revised to the 31 December 2007 rate and the impact on syndicate ECA requirements will be proportionate to the impact on the underlying benchmark capital requirement.

Further details on coming into line arrangements are contained in market bulletin Y4013 issued on 9 May 2007. Any queries relating to the coming-into-line rules should be addressed to either Kevin Nethersell (ext. 6253) or Mike Steer (ext. 5709).

### **Software**

The ECA software was released on 8 November. Agents are referred to Market Bulletin Y4021 issued on 24 May 2007 for further information relating to the ECA software and process for the 2008 year of account. The software will permit agents to reflect any late breaking portfolio changes including activity in Auction 4 on the 15 and 16 November. Agents should note that any portfolio changes should be modelled in the ECA 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 or is expected to be in place as at coming into line date (29 November 2007).

Any queries on this bulletin can be referred to Neil Wells (ext. 6034) or Kevin Barnes (ext. 5683) in Market Reserving & Capital. Alternatively, agents with a Market Mail connection should access "Lloyds-RBC-Help"; the full e-mail address is:

Lloyds-RBC-Help@lloyds.com

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

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