

MARKET BULLETIN

REF: Y4139

Title ICA 2009: additional guidance for run-off and specialist RITC syndicates

Purpose To clarify aspects of market Bulletin Y4128 of 29 February "ICA 2009 Minimum Standards and Guidance" for agents managing run-off and specialist RITC syndicates.

Type Scheduled

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Deadline 30 October 2008

Related links

ICA 2009: additional guidance for run-off and specialist RITC syndicates

Relevance

Important information for those responsible for ICA submission within agents managing run-off or specialist RITC syndicates, including actuaries, finance officers, risk officers and compliance officers.

Scope

This bulletin applies to agents managing syndicates in run-off or specialist RITC syndicates ("relevant agents"). It should be read in conjunction with Market Bulletin Y4128 of 29 February 2008, which sets out the minimum standards and guidance for 2009 ICA submissions to Lloyd's ("the Guidance").

Bulletin Y4128 stated that relevant agents must comply with the Guidance but noted also that part of the Guidance did not apply to run-off and specialist RITC syndicates, so further clarification would be given during March 2008. This bulletin provides that clarification.

To reiterate key points made in Bulletin Y4128:

- Relevant agents are asked to use the guidance issued with that bulletin as separate guidance for run-off syndicates will no longer be issued.
- The return period for the ICA remains unchanged at 1 in 200 for all syndicates.
- Agents will have to decide which parts, if any, of the guidance on underwriting risk applies to their syndicates. Other guidance generally applies in full.

Other differences in the guidance for relevant agents would be minor.

Collection of submissions

Submissions for 2009 will be collected via the Core Market Returns system. Agents can attach the electronic copies of returns to the pro forma collected through CMR. Note that for both run-off syndicates and specialist RITC syndicates, agents should use the run-off pro forma. Further guidance on the pro forma is given below.

Minimum standards

Submissions for run-off and specialist RITC syndicates are expected to comply with the minimum standards set out in the Guidance and, in particular, to include the Minimum Standards Checklist. Many of the requirements set out in the Checklist will not apply to run-off syndicates or specialist RITC syndicates, but in general, it will be clear where requirements would never apply, in which case the agent need not justify the omission, or where they do not apply in the case in question, where the omission should be explained.

Lloyd's continues to adhere to the view that it is legitimate for agents of run-off syndicates, especially those with small, mature portfolios, to consider cost-effectiveness when determining their approach and methodology, provided they can justify the decisions taken. Where the approach leads to substantial non-compliance with minimum standards, agents are encouraged to discuss the matter with Lloyd's at an early stage. Specialist RITC providers are live syndicates and are expected to adhere strictly to Lloyd's minimum standards insofar as they apply.

Assumption of run-off to expiry

As in previous years, agents are asked to complete their ICAs on the basis that run-off syndicates will be run-off to natural expiry; no account should be taken of planned or potential closure by any means whatsoever.

Exclusion of 2009 underwriting

Specialist RITC syndicates' ICAs should be calculated on the basis of existing business at the time of submission and 2009 underwriting should be excluded. This is because capital providers of these syndicates do not have to provide capital for 2009 until the syndicates write the RITC business. If planned business for 2009 were to be included in the 2009 ICA, the capital to support it would have to be provided by the normal deadline for coming into line for 2009. Nevertheless, to the extent that specialist RITC syndicates' SBF's contain

information applying to 2008 and prior years, this must be consistent with the submitted ICA. If it is not, either the ICA or the SBF must be amended and resubmitted.

Deadlines

The ICA deadline for 2009 is Thursday 30 October 2008 for run-off syndicates whose capital providers are no longer active elsewhere in the market, but agents are free to submit their ICA's anytime between 30 September and 30 October. Lloyd's cannot guarantee to commence review work until after 30 October. Where a run-off syndicate has active capital, the deadline is as for an equivalent live syndicate. Certain run-off syndicates will be required to submit their ICAs by 30 September. The agents concerned will be contacted within one month of this bulletin.

Specialist run-off syndicates are live syndicates and must follow the appropriate deadlines given in Market Bulletin Y4128. Lloyd's recognises that these are new syndicates with specific stresses involved in setting up their operations and wishes to offer as much help as possible, so should the given deadlines cause undue problems, agents are encouraged to discuss this with Lloyd's with a view to agreeing an appropriate alternative. In all cases, the final deadline must allow for review and agreement of the ICA in time to meet the coming into line deadline.

Syndicates about to close

In previous years, syndicates expected to close prior to the year for which the ICA is required have sometimes requested and been granted permission to defer their ICA submissions. From 2009 onwards, no such permissions will be granted. Syndicates ready to close by RITC will always be required to submit an ICA as Lloyd's may base the capital requirement of the accepting syndicate upon it and therefore needs to have it submitted. Agents contemplating a mid-year closure should discuss ICA arrangements with Lloyd's as soon as possible.

Issues arising in 2008 submissions

Lloyd's has some practical guidance arising from the 2008 submissions which may benefit agents by improving the quality of their submissions and in some cases reducing the work involved in reviewing them.

1. Agents are advised to provide detailed comparisons of their ICA capital with available benchmarks, including prior year ICA, ECR, largest single risk or event and net reserves. The movement of the ICA versus that of net reserves is an important test of the reasonableness of the ICA.
2. It is essential that significant movements in the ICA are explained both in financial terms and in terms of the underlying changes in the book of business or other risks.

3. Stress tests should be relevant and informative. Agents should explain why this is so and state the return period of the events underlying the stress tests. If this is not broadly comparable to 1 in 200, agents should explain how it supports an ICA at that level.

ICA Pro-Forma submission

The Guidance explains how to complete a live pro forma but not the run-off version. The two are substantially the same, with minor differences noted below.

1. Form 301: run-off and RITC syndicates do not need to complete the section on Underwriting Risk. There is a new line asking for the number of years to natural expiry of the run-off at best and 1 in 200 estimates. These should be the periods used as a basis for calculating the ICA.

2. Form 303: run-off and RITC syndicates do not have to supply the calibration data 2009 ULR stressed to 140%, nor the total including this figure. They are asked to provide the largest single risk faced, at any level of confidence and the important comparison of ICA as a percentage of net reserves at 1 in 200.

3. Form 305: run-off and RITC syndicates need not supply proposed and current year of account planned premium. Please note that technical provisions (line 3) should be stated on a UK GAAP basis and therefore include claims expenses.

Contact

In the first instance, please contact Eric Allman, Open Years Management, telephone 020-7327-6772, email eric.allman@lloyds.com