

MARKET BULLETIN

REF: Y4269

Title	ICA 2010: additional guidance for run-off and specialist RITC syndicates
Purpose	To clarify aspects of market Bulletin Y4256 of 24 March "2010 ICA Minimum Standards and Guidance" for agents managing run-off and specialist RITC syndicates.
Type	Annual
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Date	16 April 2009
Deadline	Various, not later than 29 October 2009
Related links	

ICA 2010: 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 Y4256 of 24 March 2008, which sets out the minimum standards and guidance for 2010 ICA submissions to Lloyd's ("the Guidance").

As for 2009, relevant agents must comply with the Guidance given by Market Bulletin Y4256 but parts of that Guidance are not applicable to run-off or RITC syndicates. This bulletin provides clarification of the Guidance for relevant agents.

To reiterate key points made in Bulletin Y4256:

- Relevant agents are asked to use the guidance issued with that bulletin as separate guidance for run-off syndicates is no longer issued.
- The return period for the ICA remains unchanged at 1 in 200 for all syndicates.
- Agents must 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 should be minor.

Collection of submissions

Submissions for 2010 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, checking the option for run-off and specialist RITC syndicates, as they did for 2009. The pro forma for run-off syndicates has not changed from 2009 and the slight differences from the live version are identified on the forms.

Minimum standards

As was the case for 2009, 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. Some of the requirements set out in the Checklist will not apply to run-off syndicates or specialist RITC syndicates, but in general, it should be clear where requirements would never apply, in which case the agent need not justify the omission (but should still record it), or where they do not apply in the case in question, where the omission must 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. Agents should consider the possibility that the term of the run-off will be increased at 99.5% and additional costs incurred. Such costs should be added to ULAE within the 99.5% reserves.

Exclusion of 2010 underwriting

Specialist RITC syndicates' ICAs should be calculated on the basis of existing business at the time of submission and 2010 underwriting should be excluded. This is because capital providers of these syndicates do not have to provide capital for 2010 until the syndicates write the RITC business. If planned business for 2010 were to be included in the 2010 ICA, the capital to support it would have to be provided by the normal deadline for coming into line for 2010. Nevertheless, to the extent that specialist RITC syndicates' business plans contain information applying to 2009 and prior years, this must be consistent with the submitted ICA. If it is not, either the ICA or the business plan must be amended and resubmitted.

Deadlines

The ICA deadline for 2010 is Thursday 29 October 2009 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 1 October and 29 October. Lloyd's cannot guarantee to commence review work until after 29 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. Agents in any doubt about the appropriate deadline should contact Eric Allman at Lloyd's (eric.allman@lloyds.com or telephone 020-7327-6772) for clarification.

Specialist run-off syndicates are live syndicates and must follow the appropriate deadlines given in Market Bulletin Y4256.

Syndicates seeking closure

Agents managing syndicates they plan to close at the end of 2009 must submit their ICA's earlier to facilitate the proper operation of the RITC market. RITC underwriters generally set their capital based on the ceding syndicates' ICA's, which means they have to know what they are in order to give firm quotes, or even to determine whether they can quote at all. This requires that these ICA's are agreed prior to the main quoting period. Agents expecting to seek RITC quotes in 2009 are therefore required to produce ICA submissions in compliance with the timetable given in Market Bulletin Y4256 for aligned syndicates. For the avoidance of doubt, this means draft submissions are due by 28 August and final submissions by 16 October.

Agents contemplating mid-year closure should discuss ICA arrangements with Lloyd's as soon as possible.

Quarterly reporting

The Guidance requires agents to report movements in their ICA on a quarterly basis commencing from September 2009. RITC syndicates must comply with this requirement but unless otherwise informed, run-off syndicates need not provide this information unless they are regarded by Lloyd's as active for ICA purposes, ie they are required to submit their ICA in compliance with the live timetable because their capital providers continue to underwrite elsewhere at Lloyd's. This concession is given on the basis that agents managing

syndicates where the ICA is reduced because of the existence of reserve margins inform Lloyd's on a quarterly basis of any movements in those reserve margins.

Issues arising in 2009 submissions

Lloyd's has some practical guidance arising from the 2009 submissions which may benefit agents by improving the quality of their submissions and in some cases reducing the work involved in reviewing them.

1. Once again, agents are advised to conduct comparisons with prior years and any available benchmarks and explain all material movements in terms of the underlying events affecting the portfolio. Where agents can show that their ICA is reasonable, Lloyd's usually conducts less detailed review work and finds it easier to agree the submission.
2. Agents must provide a full range of stress tests including ripple effects. The Guidance includes some examples of stress tests but it is not sufficient merely to use the examples given as they may not adequately reflect the risks facing the syndicate. Agents must also explain why the given stress tests support their submission.
3. Some agents are still submitting ICA's where the diversification credit represents too large a proportion of the undiversified total on the ICA Pro Forma. Agents are reminded that the entries in the Pro Forma should be shown at 1 in 200 and the diversification between risk categories should reflect this. In particular, the ICA total can never be less than any single component, eg reserving risk.

Contact

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