

# MARKET BULLETIN

REF: Y4331

<b>Title</b>	<b>FINAL ECA AND FAL RATIOS</b>
<b>Purpose</b>	To advise the market of final ECA arrangements for coming into line
<b>Type</b>	Scheduled
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<b>Date</b>	11 <sup>th</sup> November 2009
<b>Deadline</b>	None
<b>Related links</b>	None

## November Coming-Into-Line

Final capital ratios and member modelling software were issued on Friday 6 November in advance of the coming-into-line deadline of Thursday 26 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 (13 and 14 November 2009), capacity discarded and 'drop' taken up. Participation data reflects changes due to trades in the first 3 auctions, but only includes an estimate of the impact of syndicate pre-emptions and de-emptions. CSV and RTF files issued are indicative only, based on our latest data. Agents and Direct Corporate Members should check participation files and use the 6th November version of the software to model the capital requirements in respect of final member participations.

The ECA software reflects syndicate business forecast submitted up to the end of 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, MRC can advise on member level ECA requirements and provide software updates if required. For run-off syndicates, the latest possible position has been used even where it might change later and ICAs that have been submitted but not reviewed are reflected in the software and are applicable for November coming into line. The final agreed position, following review, will be adjusted for and reflected in the 2010 mid-year coming into line and release exercises.

## **Application**

Subject to the above, the FAL requirements issued on 6 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 2010 year of account, with the exception that the minimum capital ratio for member portfolios comprising at least 85% EU motor will be 25%.

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

As in previous years, members will be required to come into line in June 2010 based on their 31 December 2009 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 2010 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 2010 coming into line. The ECA will also reflect closure of syndicates by RITC contract as at 31 December 2009 and finally agreed ICAs in respect of run-off syndicates.

## **Change in Exchange Rates**

As in previous years, any material change in the US dollar exchange rate between that used in ICA submissions and the 31 December 2009 rate, will be reflected for the June 2010 coming into line exercise, based on the movement in underlying benchmark capital. Accordingly, members who provide their capital in Sterling and participate on syndicates writing significant US Dollar denominated business, may see a change in their mid-year capital requirement in this regard. If applicable, the impact on syndicate ECAs will be advised to managing agents in mid January 2010.

Agents are referred to Market Bulletin Y4067 issued on 10 October 2007, which sets out the Membership and Underwriting Requirements which continue to be valid for the 2010 coming-into-line 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**

The ECA software was released on 6 November. Agents are referred to Market Bulletin Y4293 of the 30th June 2009 for further information relating to the ECA software and process for the 2010 year of account. The software will permit agents to reflect any late breaking portfolio changes including activity in Auction 4 on the 13 and 14 November. Agents should note that any participation 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 (26 November 2009).

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-MRC-Help”; the full e-mail address is mailto: [Lloyds-MRC-Help@lloyds.com](mailto:Lloyds-MRC-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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Head, MRC & Lloyd’s Actuary

Finance, Risk Management & Operations