

Prudential Standard FSL 1

Framework for Financial Soundness of Lloyd's

Objectives and Key Requirements of this Prudential Standard

This Standard sets out the high-level framework for assessing the financial soundness of Lloyd's in South Africa from a regulatory perspective. The principles set out in this Standard are supported by other specialised Standards and Attachments that address particular aspects of the framework (collectively the Financial Soundness Standards for Lloyd's). These other Standards contain the technical details of the computations and requirements involved.

It is the responsibility of Lloyd's of London and its representative in South Africa to ensure that Lloyd's meets the financial soundness requirements on a continuous basis.

The Financial Soundness Standards for Lloyd's are designed to ensure that Lloyd's holds security in South Africa of sufficient quality and quantity to provide assurance, in combination with the regulatory capital requirements of Lloyd's of London, that policyholder obligations will be met as they fall due and that Lloyd's is able to absorb significant unforeseen losses arising from the risks associated with its insurance activities in South Africa.

The Financial Soundness Standards for Lloyd's address the two related matters of assessing the value of technical provisions, which value then determines the minimum amount that Lloyd's is required to hold as security in a trust, and the valuation and limitations on the assets held in the trust.

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1. Application

- 1.1. This Standard applies to Lloyd's in respect of insurance business conducted by Lloyd's underwriters in South Africa.¹

¹ "insurance business conducted by Lloyd's underwriters in South Africa" means:

2. Roles and Responsibilities

- 2.1. Ultimate responsibility for the prudent management of the financial soundness of Lloyd's rests not with the Prudential Authority but with Lloyd's of London and its representative in South Africa.
- 2.2. The representative of Lloyd's must have in place procedures to monitor that Lloyd's meets its regulatory requirements in South Africa at all times. The representative must without delay alert the Prudential Authority of any circumstances that could lead to a breach of the regulatory requirements within the following three months.
- 2.3. The representative of Lloyd's must ensure that, where approvals are required from the Prudential Authority, those approvals have been obtained.
- 2.4. The head of the actuarial function of Lloyd's South Africa is responsible for expressing an opinion to the representative regarding the accuracy of the calculations and the appropriateness of the assumptions underlying the valuation of the technical provisions of Lloyd's.
- 2.5. The auditor of Lloyd's appointed under section 32 of the Insurance Act, 2017 (the Act) must audit the financial soundness in accordance with its legal and regulatory obligations. The auditor must report to Lloyd's, the representative and Prudential Authority any matters identified during the performance of its responsibilities that may cause Lloyd's not to meet its regulatory requirements.
- 2.6. The roles and responsibilities of the representative of Lloyd's and the actuarial function of Lloyd's South Africa are described in more detail in the Governance and Operational Standards for Lloyd's (GOL 1).

3. Commencement and Transition Provisions

- 3.1. This Standard commences on 1 July 2018.

Version Number	Commencement Date
1	1 July 2018

4. Framework for Financial Soundness of Lloyd's

- 4.1. The framework for financial soundness of Lloyd's consists of the following elements:
 - a) Lloyd's must hold, in trust, an amount equal to at least the value of its technical provisions less the value of premium debtors as security for its insurance obligations stemming from its insurance business;
 - b) In determining the amount to be held in the trust, both assets and

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- All risks of South African policyholders underwritten by Lloyd's underwriters irrespective of where the risks are located (includes direct placements or placements through a South African binder holder); and
 - All South African risks underwritten by Lloyd's underwriters irrespective of who the policyholder is.

- liabilities must be valued on a basis consistent with market-based methodologies, unless otherwise specified; and
- c) The amount to be held in trust is subject to limitations on the type and spread of assets that may be held as trust assets.
- 4.2. The framework is built on a combination of requirements set out in the Financial Soundness Standards for Insurers (FSI) and more specific requirements only applicable to Lloyd's. The specific requirements are set out in the Financial Soundness Standards for Lloyd's (FSL) and reference is made to the FSI where applicable.

5. Assessing Financial Soundness of Lloyd's

- 5.1. Lloyd's is required to monitor and assess their financial soundness on an ongoing basis. Lloyd's is required to value its technical provisions and assets on at least a quarterly basis or when a material change to its risk profile can have a material impact on the technical provisions. The results of this valuation must be reported to the Prudential Authority in line with timeframes required for financial reporting purposes.
- 5.2. Lloyd's must also value and report their technical provisions and assets when otherwise requested to do so by the Prudential Authority.
- 5.3. Lloyd's must ensure, within the timeframe provided in section 6.4 below, that the value of the assets held in the trust are at least equal to the value of its technical provisions less the value of premium debtors as at the end of the most recent quarter, or as at the point in time that either the Prudential Authority requested a valuation or there was a material change in the risk profile, whichever is the later date.

6. Adjusting Trust Assets

- 6.1. Lloyd's must hold trust assets, valued in accordance with FSL 2 (Valuation of, and limitations on, assets held as security by Lloyd's), equal to at least the value of its technical provisions less the value of premium debtors.²
- 6.2. The technical provisions must be valued in accordance with FSL 3 (Valuation of Technical Provisions by Lloyd's).
- 6.3. Premium debtors can only be deducted if they are less than 120 days old and to the extent that they can be offset against future claims for each cedent separately.
- 6.4. Lloyd's must adjust, within 45 days, trust assets so that the value of trust assets is at least equal to the value of technical provisions less the value of premium debtors calculated as at the relevant date as outlined in section 5.3 above.
- 6.5. The adjustments made to the trust assets for the first quarter of each financial year must also comply with any adjustment that may be necessary as a result of the external audit outcome in respect of the previous financial year.

² Section 40(2) of the Act provides that the Prudential Authority may prescribe requirements in this regard.

- 6.6. Lloyd's centrally allocates the Lloyd's South Africa trust assets funding requirement to an underwriter level in respect of a year of account of a syndicate. If at the end of a quarter the value of the part of the fund relating to a syndicate year of account that exceeds a threshold of its technical provisions less the value of its premium debtors, then the syndicate may withdraw the excess funds above the threshold.³

7. Regulatory Intervention

- 7.1. The financial soundness framework establishes a trigger point for regulatory intervention.⁴ If the Prudential Authority is satisfied that Lloyd's has failed or may, in the following three months, fail to provide or maintain the required security it may, in addition to directing Lloyd's to rectify the actual or potential breach, suspend or withdraw the Lloyd's licence.

8. Structure of the Financial Soundness Standards for Lloyd's

- 8.1. The Financial Soundness Standards for Lloyd's are organised as follows:

FSL 1	Framework for Financial Soundness of Lloyd's
FSL 2	Valuation of, and limitations on, assets held as security by Lloyd's
FSL 3	Valuation of Technical Provisions by Lloyd's

³ The threshold applied will be as agreed with the Prudential Authority from time to time.

⁴ The Prudential Authority's powers to intervene in this respect are set out in section 42 of the Act.

Attachment 1: Definitions used in the Financial Soundness Standards for Lloyd's

The terms used in the Financial Soundness Standards for Lloyd's are defined in Attachment 1 of FSI 1 Framework for Financial Soundness of Insurers.

Attachment 2: Abbreviations

Abbreviations used in the Financial Soundness Standards for Lloyd's are defined in Attachment 2 of FSI 1 Framework for Financial Soundness of Insurers.