

Legacy Reinsurance - Receiving Syndicate

Transaction Plan Requirements

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1 Context to the requirements

1.1 Purpose & scope

The purpose of this document is to set out the information that a Legacy Transaction Plan must contain in order to allow Lloyd's to complete its' review of the proposed transaction before granting approval for the transaction to be effected.

1.2 Use within Lloyd's

The Legacy Transaction Plan will be used by Lloyd's Legacy Manager and various other internal function stakeholders as determined by the size and complexity of the proposed transaction. The Legacy Transaction Plan will not be shared with any external party.

2 Instructions for preparation and submission

2.1 What must be included

The Legacy Transaction Plan should include a detailed rationale and impact assessment for the proposed transaction. The information required to be included is set out in section 3. Lloyd's is not prescribing a format for this information although the requirements have been divided into the Principles for Doing Business at Lloyd's for ease of internal distribution.

For each the Lloyd's Business Principles cited in section 3 the receiving syndicate will provide an assessment of the impact the proposed transaction will have on the syndicate's expected maturity. Where the transaction causes the syndicate cross a threshold into a higher tier of materiality the syndicate must provide new attestation of its' capability against the revised expected maturity.

The Legacy Transaction Plan should also include an operational plan for the migration and integration of the subject business and details of any transitional services arrangements that will be put in place to cover the management of the subject business until the operations have been fully transferred and embedded. Again, Lloyd's is not prescribing the format of the operational plan but has set out in Section 5 below the business areas we expect to see covered and the minimum information we would expect to see included.

If the submitting syndicate is proposing to effect multiple legacy transactions at or around the same time, then a single Legacy Transaction Plan covering the cumulative impact of all transactions will be required.

Where the proposed legacy transaction is a Reinsurance to Close ("RITC") then the proposed RITC contract wording should be appended to the plan. This will be reviewed by Lloyd's Legal to ensure that all the requisite clauses and provisions are included.

2.2 Basis of preparation

The Legacy Transaction Plan should be prepared on a best efforts basis. Where any information required by the plan is not yet available; for example, if the number of staff transferring with the business is not known as the TUPE process has not concluded; it should be noted in the submission and provided once the information is available.

2.3 Timelines

The Legacy Transaction Plan should be submitted at the same time as the receiving syndicate LCR is submitted.

A detailed overview of the expected timelines applied to proposed Legacy Reinsurance Transactions can be found on Legacy Reinsurance page of Lloyds.com.

2.4 How you should submit

The Legacy Transaction plan should be submitted as an attachment to the receiving syndicate LCR submission via MDC (Market Data Collection). Any resubmissions of the document can be made via SecureShare using the capital folder: MRC Syndicate Capital Setting

3 Oversight Requirements – Principles for Doing Business at Lloyd's

3.1 Principle 1a: Legacy Reinsurance Underwriting Profitability

- Provide a detailed rationale for the transaction including how it aligns with overarching strategy and risk appetite relative to prior transactions.
- Provide details of the scenarios or sensitivity testing considered by the receiving syndicate whilst conducting due diligence on the proposed transaction and impact their on potential profit.
- Were the results of any stress or scenario testing provided to the body responsible for signing off the transaction bid(s) and if so can you attach a copy of the board or committee paper(s) as an appendix to the plan.
- Provide details of the expected source and timing of profit release.

3.2 Principle 2: Exposure Management

- Confirm whether the proposed transaction includes any unexpired risk and if so provide details on how this will be managed.

3.3 Principle 3: Outwards Reinsurance

- Provide a summary of the overarching reinsurance strategy, including consideration of onwards reinsurance protection planned for transferring liabilities.
- Provide a summary of the approach to the reinsurance risks around the reinsurance asset transferring, e.g. due to shared reinsurance arrangements that may be in place, or any open disputes of aged debt on existing reinsurance contracts.

Where the proposed receiving syndicate intends to purchase additional reinsurance cover for the purposes of protecting the liabilities transferred under the legacy deal in question, please provide:

- The structural details of the cover (e.g. Quota Share, Excess of Loss, etc. Including any limits or excesses or other key terms relating to the operation and coverage under the reinsurance)
- Counterparty details
 - If the reinsurer is a Lloyd's syndicate, provide the syndicate number
 - If the reinsurer is non-Lloyd's provide
 - Full legal entity name
 - Country of Domicile
 - Whether the reinsurer is a related party to the syndicate, and if so what that relationship is

- Financial Strength Ratings
 - Detail on any current disputes with the proposed onwards reinsurer(s) and specific bad debt provisions
 - Details of significant aged debts with the proposed onwards reinsurer(s)
- Details of any additional security features e.g. collateral, funds withheld.
- Details of coverage considerations.
 - Whether the onwards reinsurance will be designed to protect against reduced or non-recovery from inuring reinsurance contracts
 - Any material coverage restrictions or limitations, and the contractual approach to claims settlement in the onwards reinsurance
- If the reinsurer is a related party, please provide the risk transfer price analysis

For any existing reinsurance asset that is subject to the legacy transaction (whether or not operational management of the asset is being transferred) please provide:

- The amount and broad composition of any existing RI asset that is subject to the legacy transaction
- The form of the receiving party's interest in any such RI asset e.g. inuring to legacy transaction, deemed in place, transferring or assigned to the receiving party
- How this existing RI asset will be managed in practice, particularly for existing collateralised arrangements, and which entity will be operationally responsible for this.
- Details of any current disputes that either ceding or receiving party has with counterparties with a material share of the existing RI asset
- Details of any aged debt that either ceding or receiving party has with counterparties with a material share of the existing RI asset
- Confirmation of whether any reinsurance arrangements shared between the ceding and reinsuring parties will exist after the transaction? If so how will these be managed?

3.4 Principle 4: Claims Management

- Provide details of the current claims resource within receiving syndicate compared to the target claims resource model post transfer of liabilities, including a gap analysis.
- Provide an overview of the number of ceding claim staff that would be subject to TUPE as a result of the transaction and whether; considering their level of experience, they would require additional training post integration into the receiving syndicate's operations.
- Provide an overview of current claims authorities and how they will be impacted by the proposed transaction.
- If the proposed transaction is a quota share reinsurance such as a loss portfolio transfer ("LPT") or an excess of loss reinsurance such as adverse development cover ("ADC"), please confirm

what if any claims control, claims settlement authority and/or conditions for referral are associated with the transaction, and confirm the proposed date for cessation of cover.

- If any retrocession cover is being considered for the legacy transaction please confirm whether this will include the delegation of claims control and/or settlement authority.
- Provide a summary of the anticipated impact of the transaction on current claims systems, giving consideration to the functionality and capability of these with regards to the additional claims transferring in.
- Confirm whether the liabilities assumed in the proposed transaction will, by virtue of their volume, size or type, result in a change in the KPIs, KRIs and MI used to monitor claims performance across the whole portfolio.
- Confirm whether preparation to ensure that any new or in flight RITC claims messages are directed to the correct agent is underway.
- Confirm whether Lloyd's FCP applies to any claims within the subject business, and if so confirm what processes are proposed to move the associated trust funds.

3.5 Principle 5: Customer Outcomes

- Provide a summary of how you plan to ensure good customer outcomes for the business transferring as part of the proposed transaction, giving consideration to how this will align with your existing customer base and processes.
- Provide details of any live binding authority arrangements and any unearned/unexpired exposure.
- Provide the number and location of eligible complainant policyholders transferring with the subject business.
- Provide confirmation of complaint volumes on business transferring and details of the framework for managing complaints on existing and transferring business, including any relevant plans to scale up capability in advance.

3.6 Principle 6: Reserving

- Provide a summary outlining the plan to manage the new reserves transferring from the ceding syndicate and how this will align with existing reserving processes and governance.
- Provide a summary outlining your assessment of the reserving data quality from the ceding syndicate and how you have considered this through your due diligence of the proposed transaction and how you plan to mitigate any discrepancies or gaps.
- Confirmation of how the transaction impacts on the Lloyd's Casualty Reserve Stress Franchise guideline, i.e. whether it triggers based on a 45% deterioration of casualty reserves exceeding 100% of post deal proposed ECA.

3.7 Principle 8: Investments

- Describe how the assets associated with the transaction are to be transferred and in what timeframe?
- Confirm whether there is a risk of a change in valuation prior to transfer and if so estimate the potential range of this change (positive and/or negative)
- Confirm whether overseas regulatory funding requirements continue to be met post transaction
- Please provide a summary of how assets transferring with the transaction will be integrated with existing assets under management and whether their introduction will result in a change in the overarching investment management strategy – including consideration of ongoing ALM for assets transferring.

3.8 Principle 9: Liquidity

- Confirm whether the portfolio transferring likely to have any impact on your 1-in-200 liquidity stress event i.e. through an increase in liabilities are you now more exposed to an event that could lead to an impact on FAL through liquidity strain?
- Will the portfolio of transferring assets likely change the asset mix so that there is more exposure to an asset shock?
- If the answer to either of the above is yes, please provide an analysis showing how you will mitigate any impact.

3.9 Principle 10: Governance, Risk Management & Reporting

- Provide an overview of the internal governance processes to approve the proposed transaction, including the format and scope of any Risk Management review
- Confirm whether the impact of the proposed transaction on the existing governance and control framework has been assessed and what changes (if any) are envisaged
- Outline the planned governance of post transaction integration
- Confirm whether the transaction results in additional risk to the receiving syndicate either by the assumption of a new risk or business type or by concentration with existing risk? If so then please outline how this will be managed?

3.10 Principle 11: Regulatory & Financial Crime

- Confirm whether the portfolio transferring under the proposed transaction is likely to have any impact on the receiving syndicate's risk profile from a financial crime monitoring and assurance perspective, i.e. through increased open claims in high risk/sanctioned areas or arising from

higher risk classes of business?

3.11 Principle 12: Operational Resilience

- Provide a summary of how the proposed transaction will impact on Important Business Services, critical third parties and the operational resilience framework of the receiving syndicate/managing agent as a whole.

4 Attestations of Maturity Against Lloyd's Principles for Doing Business

4.1 Impact of Proposed Transaction on Receiving Syndicate Maturity

The receiving syndicate of the proposed Legacy Reinsurance transaction is required to assess the impact of the proposed transaction in respect of materiality of the Principles for doing business at Lloyd's. This should be conducted for all Lloyd's principles not just those cited in section 3 above. The applicable materiality for each Principle can be found on Lloyds.com [<https://www.lloyds.com/conducting-business/market-oversight/principles-for-doing-business-at-lloyds>]. The results of the assessment should be included in the Legacy Transaction Plan.

Where the impact results in an increase in expected maturity for a Principle due to movement across a Principle's materiality threshold, Lloyd's requires a self-assessment of the maturity of its' capability based on the higher materiality. This attestation needs to be approved at Board level in the same way as those submitted annually, and included in the Legacy Transaction Plan.

Where the self-assessment and revised attestation identifies a gap between the assessed maturity of the syndicate's capability and the expected maturity required by the revised materiality, the receiving syndicate will provide a description of the plan to close this gap, with clear timelines, down to the sub-principle level as necessary.

5 Operational Plan for Transition, Migration and Integration

5.1 Transitional Services Arrangements (“TSAs”)

It is recognised that it is unlikely that the operational management of the subject business will transfer to the receiving syndicate on the date that the legacy reinsurance transaction is effected. Lloyd’s therefore requires details of any TSAs that will be put in place prior to the operational management being taken over by the receiving syndicate. This information should include;

- Details of the parties providing transitional services
- Summaries of the services that will be provided by the ceding managing agent and any third parties
- The proposed duration of the TSAs
- A description of how the performance of the TSAs will be monitored and reported

5.2 Migration and Integration

Describe the operational plan for the migration and integration of the subject business of the proposed transaction. The plan should cover, but is not limited to, the areas listed below, and should provide sufficiently detailed processes and timelines, including KPIs and milestones, to facilitate the monitoring of the progress and performance of the project.

The plan should identify the person responsible for the successful delivery of the integration project and detail what reporting they will receive and generate to complete the successful integration of the subject business.

For all business areas where management of the incoming portfolio cannot be covered by the existing capacity of the receiving syndicate, the plan should include details of the shortfall and how the syndicate intends to address it and in what timeframe.

- **Data**
 - Have all data sources been identified?
 - Is there physical data as well as digital data?
 - How is digital data transferred. Is the method secure?
 - How are physical records being transferred. Is the method secure?
 - Can all the incoming data be securely stored and readily accessed by the appropriate functional areas?

- **Assets**
 - How are the assets associated with the transaction to be transferred and in what timeframe?
 - Is there a risk of a change in valuation prior to transfer and if so what level?
 - Will overseas regulatory funding requirements continue to be met post transaction?
- **People**
 - Are staff being transferred as part of the transaction?
 - If so are the numbers transferring sufficient to cover the increased workload in each of the functional areas?
 - If insufficient staff are transferring how does the receiving syndicate propose to make up the capacity deficit?
 - Is there sufficient facilities for the incoming staff, such as office space, IT hardware etc.
 - Where TUPE has resulted in the transfer of staff that are surplus to requirements what is the redundancy policy and anticipated cost?
- **IT**
 - Is any hardware or software being transferred to facilitate the management of the incoming business?
 - If so, how is this resource being transferred? Is the method secure?
- **Third Party Service Providers**
 - Have all third party service providers been identified?
 - Do any have a break clause that is likely to invoked as a result of the transaction?
 - Is it the intention to maintain third party services or bring the functions in-house?
 - What is the timeframe for bringing functions in-house?
- **Communication**
 - What is the strategy for communicating the change in counterparty to the ceding syndicate's clients and brokers?
 - Have the appropriate steps been taken and applications made to redirect the claims messages and payments?