

Reinsurance Collateral Deposit – Frequently Asked Questions

Lloyd's Insurance Company S.A

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Contents

Introduction	3
General	4
Management and Operations	6
Investment Management	9
Tax and Accounting	11
Legal	12
Contacts for Further Information	14
Glossary of Reinsurance Collateral Deposit Terms	15

Introduction

Purpose and background

This document answers common questions from market participants about the Reinsurance Collateral Deposit (RCD). The RCD has been developed to meet enhanced regulatory expectations set by the National Bank of Belgium.

Lloyd's Europe (LIC) previously explored an alternative approach, known as 'Funds Withheld', but the RCD was selected as the most effective long-term solution following consultations with the market.

The Reinsurance Collateral Deposit went live on 31 March 2026.

How this FAQ is maintained

We will update this document whenever material changes arise or when new information or questions need to be added.

In addition, Lloyd's Europe will review the FAQ annually to ensure the content remains accurate and up to date.

General

What is a Reinsurance Collateral Deposit?

A Reinsurance Collateral Deposit is cash that each reinsurer provides to Lloyd's Europe to secure their reinsurance obligations. It is defined in Article 5 of the Quota Share Reinsurance Agreement.

The deposit is held by Lloyd's Europe on a title-transfer basis and sits in dedicated static funds that are not used to settle day-to-day claims. Instead, it provides financial security for the liabilities a reinsurer owes to Lloyd's Europe.

Why is Lloyd's Europe implementing a Reinsurance Collateral Deposit?

The Reinsurance Collateral Deposit is being introduced to meet enhanced regulatory expectations from the National Bank of Belgium.

It provides a clear, consistent collateral framework for Lloyd's Europe while maintaining flexible access to the EU insurance market and minimising changes to existing syndicate processes.

How do you expect the Reinsurance Collateral Deposit to work?

The deposit is held in Lloyd's Europe bank accounts and reflects the level of gross notified outstanding claims. The funds sit outside the daily claims-settlement process and are not used for daily operational cashflows.

Each quarter, Lloyd's Europe recalculates the Required Collateral Deposit Amount. If the Collateral Deposit falls below this amount, because of movements in claim reserves or investment values, the reinsurer will be required to provide additional collateral. If the Collateral Deposit exceeds the requirement, the surplus will be returned to the reinsurer.

The funds are invested by Lloyd's Treasury & Investment Management (LTIM) in line with the RCD Investment Strategy and regular reporting will keep all parties informed.

What will be the frequency of the rebalancing?

Rebalancing will occur quarterly with calculations taking place at the start of each quarter.

What will be required to fund the Reinsurance Collateral Deposit?

The RCD is based on 100% of gross notified outstanding claims, calculated per currency and per year of account.

This amount covers case reserves only and does not include IBNR or IBNER.

Will any adjustments be made to the Required Collateral Deposit Amount for any retrocession protection our syndicate has?

No adjustments will be made for further retrocessions made by syndicates.

What will happen if a line of business or an MGA goes into runoff?

The RCD will continue to reflect outstanding claims and would follow any reinsurance to close (RITC) arrangements.

What is in scope?

Year of account 2026 onwards for all methods of placement with funding starting as Q1 2026.

Management and operations

How will the funding of the Collateral Deposit work?

The funding collection process will use the Central Settlement service. This process will use ARCS to notify syndicates with an invoice of funding requirements and payment/repatriate advice. Upon the notification of funding requirements, syndicates will have seven calendar days until the settlement date to fund the 'Required Collateral Deposit Amount'. Similarly, if Lloyd's Europe is required to repatriate funds to the syndicates, this will be received within seven calendar days of notification.

The notification date is not expected to be earlier than three business days after the quarter-end and fixed dates, such as the last Friday of a month, have not been set for this process.

Are the funds held in a segregated account for each syndicate and how are they protected

No, the RCD is held in three pooled currency accounts (EUR, USD and GBP), rather than separate accounts for each syndicate. This pooled approach supports efficient investment management.

Each syndicate's position is tracked separately in ARCS and our internal systems, giving a full audit trail of all inflows, outflows and balances.

Reporting and bank-statement reconciliation provide clear visibility over every syndicate's movements and collateral position.

Will there be any changes to the flow of claims and premiums?

No, there will be no changes to Velonetic or the daily cashflow process.

Premium and claims payments between syndicates and Lloyd's Europe will continue as normal.

What timeline can the market expect every quarter?

The projected timeline for the year 2026 can be seen:

Q2 Timeline



01/04/2026
Process start – Funding requirements calculation



27/04/2026
ARCS Settlement report



05/05/2026
Settlement



05/06/2026
Investment factsheet



05/07/2026
QAD 230 – List of assets
(investment data – portfolio list)

Q3 Timeline



01/07/2026
Process start – Funding requirements calculation



17/07/2026
ARCS Settlement report



27/07/2026
Settlement



05/08/2026
Investment factsheet



05/10/2026
QAD 230 – List of assets
(investment data – portfolio list)

Q4 Timeline



01/10/2026
Process start – Funding requirements calculation



19/10/2026
ARCS Settlement report



26/10/2026
Settlement



05/11/2026
Investment factsheet



05/01/2027
QAD 230 – List of assets
(investment data – portfolio list)

However, as this is a 'projected' timeline this could be subject to change, especially as the process is embedded.

First Cycle (April 2026):

As April 2026 is the first time this process will be conducted, changes to the timeline will be required. Consequently, the market can expect the settlement date to be approximately around the later date of 5 May 2026.

What report does Lloyd's Europe use to indicate the Outstanding Claims?

Lloyd's Europe receives a daily feed of the Syndicate Claims Message (SCM) data from Velonetic. As a result, we will use the latest position at quarter end to calculate the funding requirements.

How is Lloyd's Europe picking up the relevant Outstanding Claims?

Lloyd's Europe will be using the LIC syndicate number that we map to the relevant Lloyd's syndicate number.

We are establishing a sub-syndicate; will you be able to separate this in the settlement statements?

Yes, as long as there is a separate syndicate number in Velonetic, the funding requirements will be particular to that syndicate.

What will the "Tab" number be for cash pulls?

The tab number for the Reinsurance Collateral Deposit will be 197 and this number will remain the same for all currencies.

Investment management

How will investment returns be paid?

The investment returns will be kept in the fund and added to the Reinsurer's Collateral Deposit Balance. This means that if the investments made increases the value of the Collateral Deposit, then the amount required by reinsurers to fund may be less or potentially could lead to some funds being repatriated to the Reinsurers.

However, the Reinsurers will also take the investment risk. This means that if the value of the investments falls then the Reinsurer may be required to transfer additional cash collateral to meet the Required Collateral Deposit Amount.

What currencies will be used?

The Reinsurance Collateral Deposit will have three core 'Relevant Currencies' which will be EUR, USD and GBP. Any non-core currencies will be converted to GBP for investment purposes as these marginal currencies collectively represent only around 1% of exposures compared to the 'Relevant Currencies'. The Currency Conversion Service (CCS) can be utilised by syndicates for any required conversions.

How will the different currencies be managed?

The Reinsurance Collateral Deposit will be managed through three separate portfolios for each of the 'Relevant Currencies' (i.e. EUR, USD, GBP). Each portfolio will be managed as a multi-asset fixed income portfolio investing across government bonds and investment grade corporate bonds. Each portfolio will follow a similar asset allocation (as highlighted in the next FAQ) and will report in their respective currency.

What will the Asset Allocation and Investment Strategy look like?

Each currency portfolio strategy will operate under two investment phases:

1. **Interim Strategy** – Applies while the portfolio is building towards:
 - €100 million (EUR portfolio)
 - \$100 million (USD portfolio)
 - £100 million (GBP portfolio)

Below this size, each portfolio cannot hold a sufficiently diversified Investment Grade (IG) Credit allocation.

2. **Steady State Strategy** – Begins once the €/\$/£100 million threshold is reached

Therefore, the anticipated asset allocation can be seen below:

Phase	Interim	Steady State
Government Bonds	100%	45%
IG Credit	-	55%

What will the duration targets be?

The portfolios will target a neutral duration of 3.5-years, reflecting the average duration of liabilities written in Europe.

How long will it take each portfolio to reach the 'Steady State'?

The expected timing reflects the relative scale of currency exposures across European insurance business:

- EUR is the largest and is expected to reach steady state from year 2.
- USD is also expected to reach steady state from year 2.
- GBP, being the smallest exposure, is expected to reach steady state from year 5.

However, as these timings are only estimates, each portfolio could reach the 'Steady State' at an earlier or later date.

Why is there no cash allocation in the portfolios?

Strategic cash is excluded primarily due to Belgian tax law regarding money market and cash funds. This is because these laws could possibly lead to an increase in tax liabilities for Lloyd's Europe. Furthermore, this exclusion will only have a minimal impact on the liquidity of the portfolios as the government bonds will be highly liquid and thus can be used for short term outflows.

How will the reporting of investments work?

We are currently working on establishing the process of how investment reporting will operate and thus certain specifics are still being finalized. However, the process is expected to be very similar to the reporting that is currently provided for the Overseas Trust Funds. As a result, Lloyd's Treasury and Investment Management will provide monthly 'Investment Factsheets' for each portfolio at the portfolio level and these will be produced by working day 5 of each month. Furthermore, managing agents will also receive quarterly QAD 230 data.

Tax and accounting

Will there be any tax burdens?

Under UK tax law, net investment returns (income or expense) allocated to the Collateral Deposit is expected to be taxed as trading income/loss on the declarations basis in the normal way.

Furthermore, the net investment returns benefit from a withholding tax exemption in Belgium (according to the UK/Belgium double tax treaty). This means that the gross amount of net investment income received by Lloyd's Europe is expected to be ceded in full to each syndicate. In order to secure such exemption from Belgian withholding tax, Lloyd's Europe will implement a streamlined Belgian withholding tax compliance process, whereby a Belgian withholding tax form will be filed quarterly (or each time income is ceded to the syndicates) and a specific tax treaty form, together with a single certificate of tax residence to be issued by HMRC for all syndicates, will be filed annually.

On which balance sheet will the Deposit sit and how will it be recognised on the balance sheet?

On a syndicate's balance sheet, the Collateral Deposit is expected to be recognised as 'Deposits with ceding undertakings' within 'Assets' under UK GAAP. Furthermore, the Collateral Deposit will just be treated under UKGAAP for syndicates.

Despite this, we do recommend that you check with your auditor as we can only provide guidance on our view and the final accounting treatment remains the responsibility of each syndicate.

How does the Reinsurance Collateral Deposit impact Solvency II?

From a Solvency II perspective, the Collateral Deposit is expected to be recognised as "Deposits to cedants (R0350)" on the economic balance sheet.

Furthermore, when assessing the impact of the Collateral Deposit on the Solvency Capital Requirement, syndicates should consider 'Type 1 Default Risk' which reflects counterparty exposure to Lloyd's Europe and 'Market Risk' which reflects the variation of the market value of the Collateral Deposit.

Legal

Will the ownership of the collateral change?

Yes, the collateral is transferred on a title transfer basis. This means that, Lloyd's Europe will become the absolute owner of the cash collateral once transferred.

As a result, the Reinsurer has no proprietary claim over these funds or any investments made with the funds.

Does this open Lloyd's up to CASS 5 of holding client money?

CASS 5 will not apply to the Reinsurance Collateral Deposit as the deposit will belong to Lloyd's Europe.

Will the Reinsurance Quota Share Agreements need to change?

Yes, the Quota Share Reinsurance Agreements were updated in December 2025 to include the RCD provisions and related terms.

If you have questions about the revised agreement, please contact LloydsEurope.Reinsurance@lloyds.com.

Will the changes to the central settlement process require an additional mandate?

The funding and collections of the Reinsurance Collateral Deposit are supported by the updated Quota Share Reinsurance Agreements and mandate these transactions. Therefore, no new mandate is required.

When would the Reinsurance Collateral Deposit be drawn down?

Article 11 of the Quota Share Reinsurance Agreement sets out the events that give Lloyd's Europe the right to draw down on a reinsurer's Collateral Deposit.

Overall, a reinsurer's Collateral Deposit would be drawn down if that reinsurer defaults on their liabilities to Lloyd's Europe to pay reinsurance claims as they fall due.

However, operationally, the Reinsurance Collateral Deposit is intended to be the 'last resort' to pay claims to policyholders and thus would only occur after a Reinsurer has gone through the 'Chain of Security'.

Consequently, the normal course of events leading up to a default would be as follows:

- 'Premium Trust Funds' would need to have insufficient funds
- Member's 'Funds at Lloyd's' would need to be fully utilised and unable to supply new monies
- An undertaking on the 'Central Fund' would need to be either insufficient to fund all cash calls or declined by the 'Council of Lloyd's'.

Any drawdown would need to be approved by the Lloyd's Europe's Management Committee and the defaulting reinsurer would be notified of this decision.

Contacts for further information

Lloyd's Europe Reinsurance Agreement queries

LloydsEurope.Reinsurance@lloyds.com

Lloyd's Europe Legal queries

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Reinsurance Collateral Deposit queries

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Glossary of Reinsurance Collateral

Deposit terms

Reinsurance Collateral Deposit /Collateral Deposit	The cash provided to Lloyd's Europe by a Reinsurer to collateralize their obligations to Lloyd's Europe
Required Collateral Deposit Amount	The amount that a Reinsurer's Collateral Deposit will need to hold to collateralize their obligations to Lloyd's Europe. This will be calculated every quarter as 100% of Gross Notified Outstanding Claims
IBNR	Incurred But Not Reported reserves
IBNER	Incurred But Not Enough Reported reserves
Relevant Currency	One of the three core currencies that comprise the Collateral Deposit. These are; EUR, USD and GBP
Deposit Balance	The current value of the Collateral Deposit. This is made up of the current valuation of the investments made, any uninvested cash and any returns on these investments
ARCS	Apportionment, Reporting and Collection System
Funding Requirements	The difference between the Required Collateral Deposit Amount and the Deposit Balance that syndicates are required to fund
Reinsurer	A Reinsurer of Lloyd's Europe is defined as the individual member of Lloyd's which are the legal counterparties of LIC under the Reinsurance Agreements but under the legal structure of Lloyd's, the duties and obligations of Members in respect of their business at Lloyd's are performed on their behalf by the Managing Agents of the Syndicates on which the Members participate and who act as the Reinsurer
Quota Share Reinsurance Agreement/Reinsurance Agreement	The agreement made between Lloyd's Europe and its Reinsurers to cede its liabilities towards policy holders
Chain of Security	The three elements of the Lloyd's capital structure (Premium Trust Funds, Funds at Lloyd's and Central Fund). Further information can be found here

