



Director Briefings

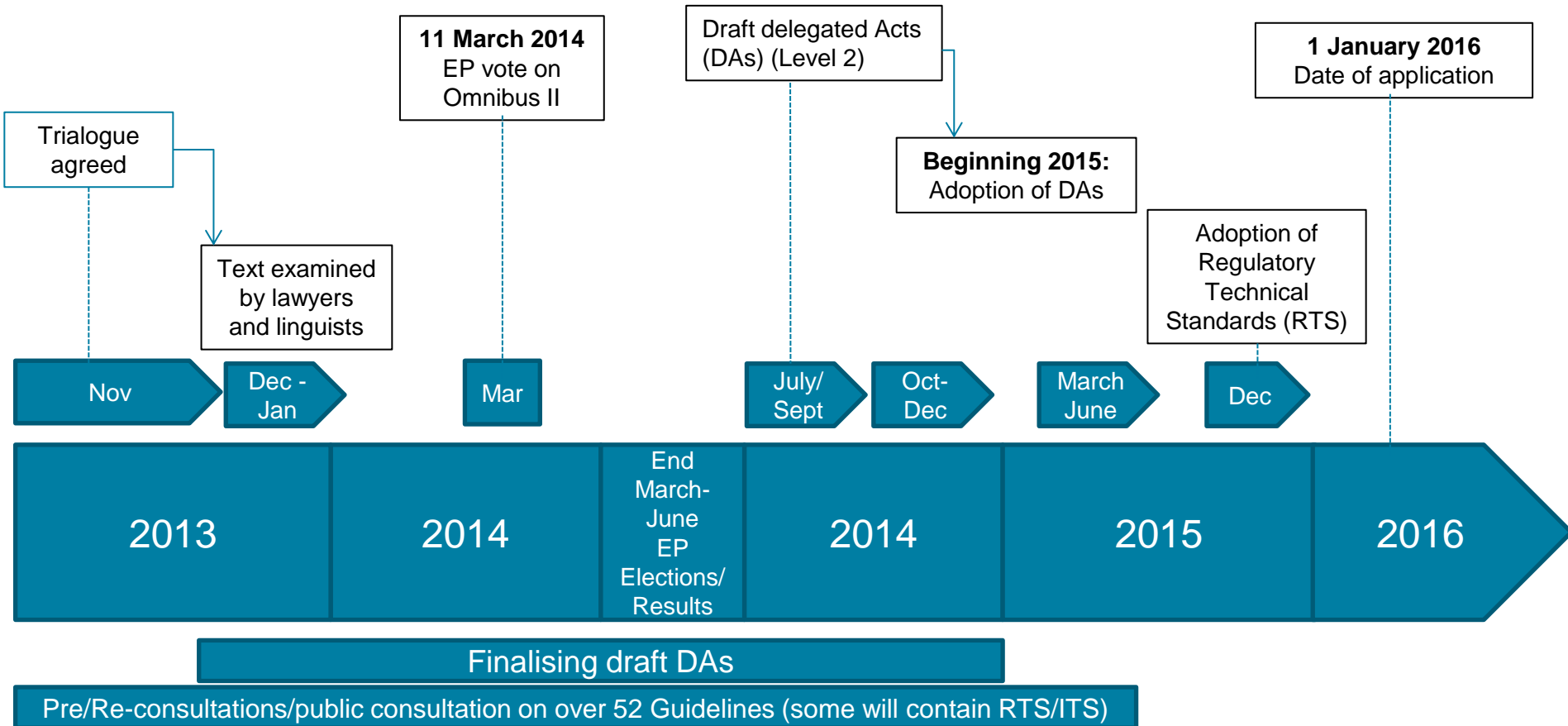
1 & 2 April 2014

Agenda

- ▶ Solvency II
 - Lloyd's final phase of implementation - **Luke Savage**
 - Update from the Prudential Regulatory Authority - **Andrew Dyer & Jennifer Low**
 - Questions
- ▶ Lloyd's Minimum Standards refresh including Conduct Risk - **Sean McGovern**
- ▶ Questions

Approaching the end of a long winding road...

- ▶ Solvency II now confirmed to start 1 January 2016
- ▶ European Parliament approved Omnibus II on 11 March 2014
- ▶ Level 2 measures (Delegated Acts) will follow Omnibus II



Lloyd's has already achieved much in its implementation programme...

- ▶ A huge undertaking for both the Corporation and the market, costing around £300m across the market over 5 years
- ▶ Clear benefits:
 - An enhanced risk management framework providing greater insight into risk
 - S&P has noted Lloyd's strong enterprise risk management and governance as making a positive contribution to their rating
 - A much more robust capital model which enables a holistic assessment across risk types
 - Demonstrable embedding of risk management with capital setting
 - Engagement and raised standards across the whole market
 - Lloyd's 'advanced implementation' means obsolete ICA models were able to be discarded for 2013
 - Joint Capital & Planning Group is more effective and efficient
- ▶ Successful implementation of SII is good for share price and capital planning
- ▶ Implementation of SII has improved the way many Agents run their businesses

...and now is the time to finish the job

- ▶ Lloyd's IMAP submission expected to be made April 2015
- ▶ Lloyd's programme scaled up e.g. Solvency II Steering Group has re-formed
- ▶ A significant refocus of efforts and resource is expected on Solvency II during 2014
 - Both for managing agents and for Lloyd's
- ▶ Agents expected to meet full tests and standards by end 2014
 - Explicit link with capital setting process for 2015

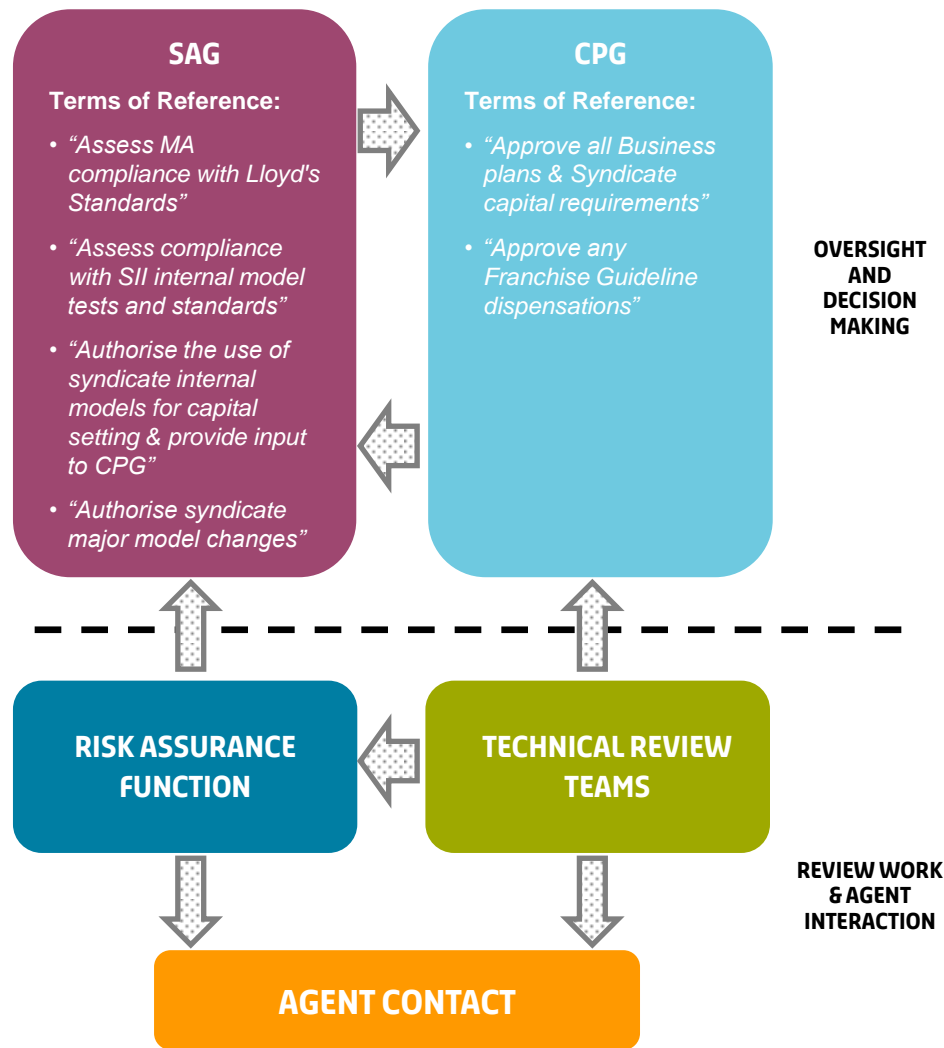
Lloyd's expects each agent to meet the full tests and standards by end 2014...

- ▶ Lloyd's wrote to agents in January setting out its view as to where agent stood against tests and standards
- ▶ Agents submitted final 'action plans' by end February
- ▶ Lloyd's will complete review and assign initial ratings against full tests and standards by early April
- ▶ Lloyd's will continue to work with agents during the remainder of 2014 to help them close the remaining gaps...
- ▶ ...leading up to final agent Board attestation in December

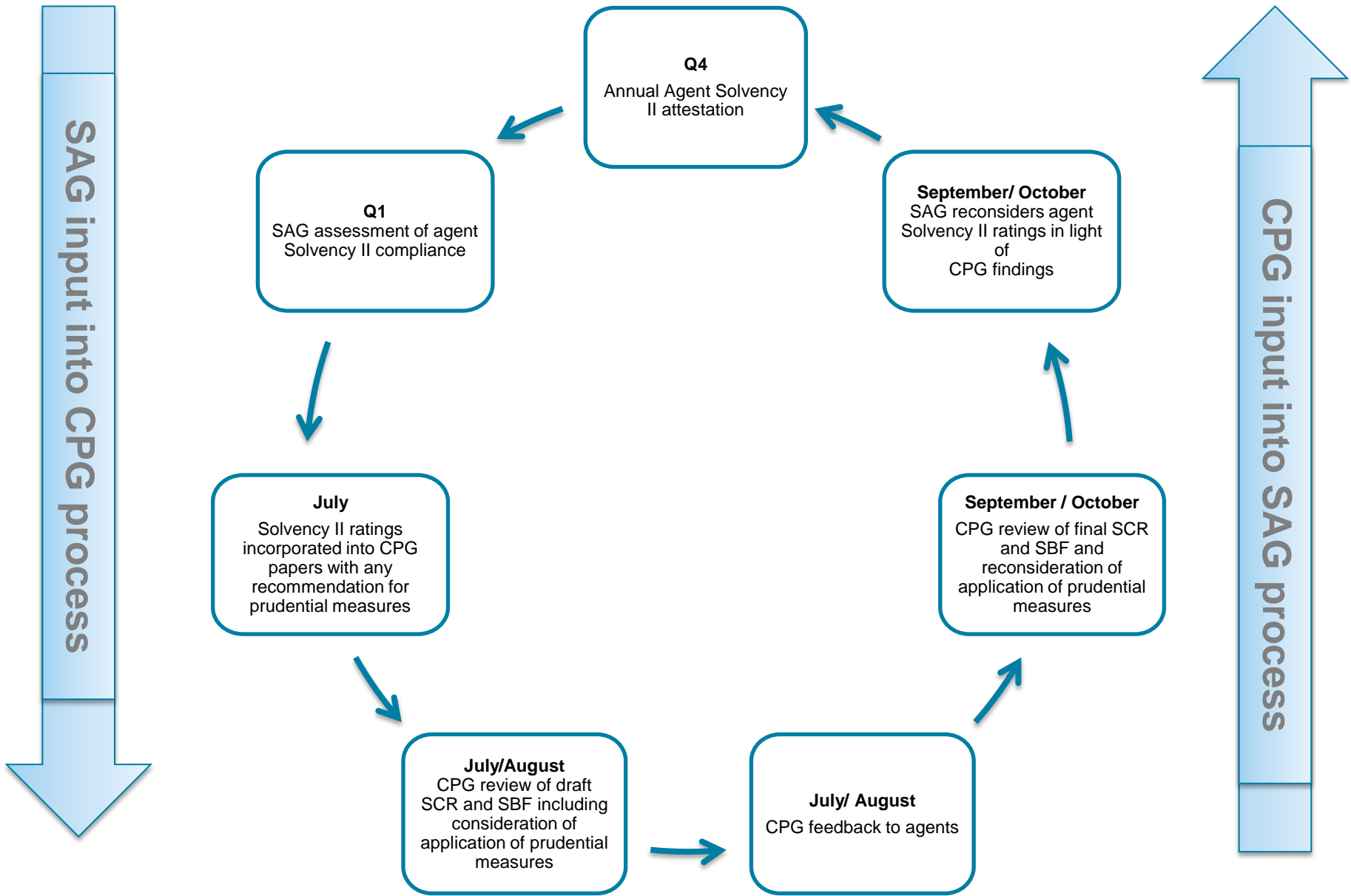
...and has set out a clear plan to achieve this

Our review of agent progress in 2014 will feed into the capital setting exercise for 2015

- ▶ **Standards Assurance Group (SAG)** assesses agents' progress towards Solvency II compliance
- ▶ **Capital and Planning Group (CPG)** oversees Lloyd's capital setting and syndicate business planning processes
- ▶ CPG will make decision on prudential measures based on SAG input:
 - Capital loadings
 - Business plan restrictions



SAG and CPG interaction



Key areas for focus in 2014

SCR Internal Models which are not SII compliant

- Ongoing model development for review by CPG from July – Sept
- Consideration of prudential measures
- Dependencies
- Assumptions - expert judgement

Pillar 3 Dry Run – Q3 2014

- 1st attempt at Pillar 3 – significant effort required
- Engagement of team(s) who may not have been part of SII programme until now
- Careful resource planning

ORSA

- Lloyd's expects March submissions to demonstrate further development of ORSAs

Actuarial Function Reports

- Agents encouraged to include opinions on Underwriting and Reinsurance for 2014 submission(s)
- Most agents rated currently Red

Model Change

- Updated Lloyd's guidance (Q1 2014) will impact amount of work required for agents on Model Change Policies and Model Change reporting in 2014

Catastrophe risk

- Validation of Cat Risk (modelled AND non-modelled)
- Non-Modelled Cat exposures
- Use of Broker models

Lloyd's is working hard to influence regulatory policy and approach

▶ Early Warning Indicators

- Currently unclear whether it will be a hard floor or starting point for discussion.
- Lloyd's has raised concerns about the concept of a hard floor and proposed adjustments to reflect the cycle
- Continuing interaction between the PRA and industry is essential so that the PRA may develop an EWI which meets their requirements
- Whilst ensuring that industry retains the benefit of enhanced risk management available from approved internal models

▶ SCR standard formula

- Dis-incentivises good risk management by imposing 25% charge on surplus assets held in foreign currencies
- Lloyd's and the wider industry (through Insurance Europe) have proposed changes to European Commission

Lloyd's regular interaction with UK regulators continues

- ▶ Regular interaction with both the PRA and FCA.
- ▶ Increased interaction with the PRA in the lead up to the LIM IMAP submission in April 2015
 - Lloyd's subject to many of the same reviews by the PRA as managing agents are from Lloyd's e.g. Use Test interviews, ORSA
- ▶ Syndicate workstream is a key element of the wider Lloyd's Solvency II programme
 - Regular (monthly) interaction with the PRA on Lloyd's syndicate review work
 - Detailed exchange of views on individual agent SII readiness
 - Key aim to understand any differences of opinion and agree resolution
- ▶ Agents (and the broader UK industry) should also expect increased interaction with the PRA as they follow up on feedback letters

In conclusion...

- ▶ Solvency II start date Jan 2016 now certain
- ▶ Much has been achieved to date but final concentrated effort now needed
- ▶ Firms must agree IMAP submission slot with PRA and plan the conclusion of their programmes around this
 - For managing agents, this means planning towards the Dec 2014 attestation
- ▶ Pillar 3 is now of increased prominence
 - Dry running in 2014 shall prepare you to meet the Guidelines in 2015
- ▶ Continuing need to refine other areas
 - ORSA; model validation; actuarial function; use test
- ▶ Maintain close engagement with the PRA

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Update from the PRA

Update on Solvency II activity

Andrew Dyer

Jennifer Low

Society of Lloyd's Supervision Team, PRA

1st and 2nd April 2014

The journey has been long but the end is in sight.....



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Milestone dates

There are a number of important milestone dates:

Conclusion of syndicate sample reviews

August 2014

Conclusion of LIM IMAP Phase

Q4 2014

Directive transposed into UK law

31st March 2015

The Directive goes live

1st January 2016



PRA approach to reviews

- Lloyd's and PRA reviews will continue in parallel.
- A number of material issues identified from 2013 reviews including:
 - one-year emergence of risk
 - parameter uncertainty
 - validation
 - external models.
- Managing agents will have an opportunity to demonstrate that feedback has been addressed.
- Proportionality is an important consideration in our reviews.



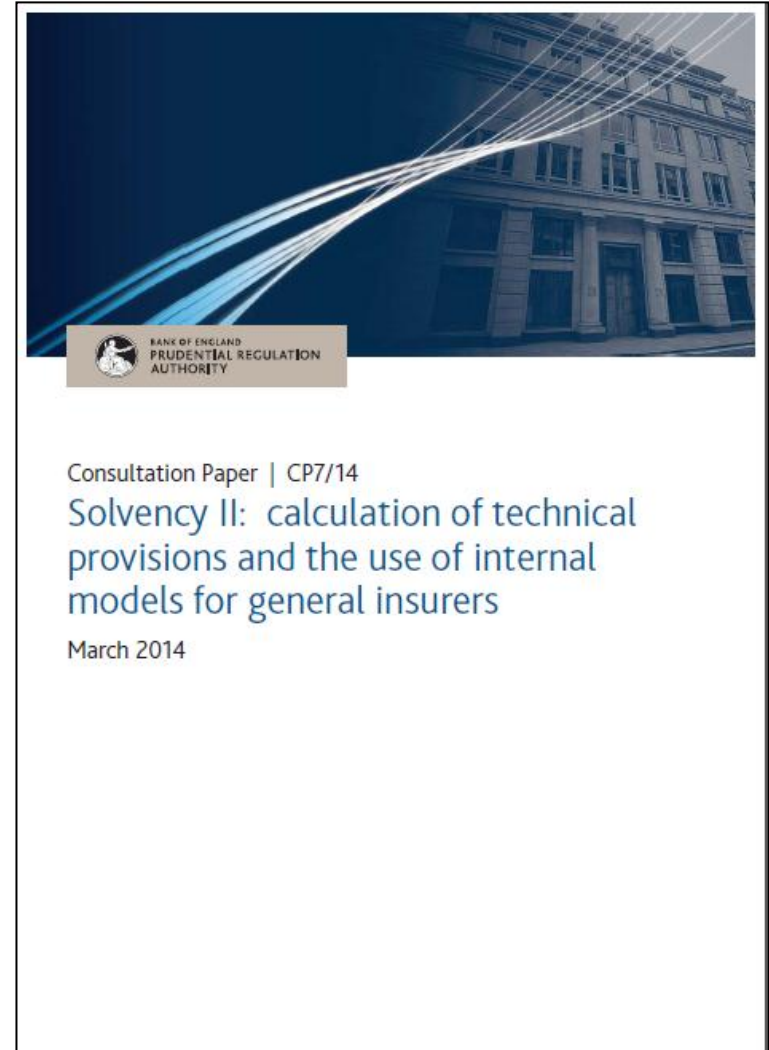
What can managing agents do to ‘succeed’?

- **Responsibility for demonstrating that requirements are met rests with the managing agent:**
 - be prepared to provide review teams with evidence that directly maps back to the issues identified.
 - Is the evidence compelling, complete, digestible? Will it raise additional concerns?
- **This is not simply a compliance exercise:** how is the Board gaining comfort that the model is fit for purpose? Importance of ongoing model development.
- **Engage on technical issues**



Further information

- PRA Consultation Paper CP7/14. Consultation is open until 14th April.
- General insurance conference on 1st May.



Solvency II Questions...

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Where did we leave it last time..

- ▶ Regulatory Update
 - International
 - Comframe
 - (FSB) regime of enhanced supervision for globally systemic insurance institutions (G-SII's)
 - Europe
 - Insurance Mediation Directive revision (IMD2)
- ▶ Minimum Standards – refresh was underway
- ▶ Conduct Risk – high priority

Why are we refreshing the standards?

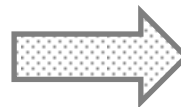
- ▶ One set of standards covering all requirements for Managing Agents
 - A clear framework within which all Managing Agents are expected to operate
 - Consistency in interpretation, presentation and publication
 - Alignment to Solvency II and PRA requirements

CURRENT STANDARDS

Claims Management
Risk Management
Underwriting
Reinsurance
Delegated Authorities
Exposure Management
Effective operational processes
Governance
Management of investment risk
Reputation & Brand



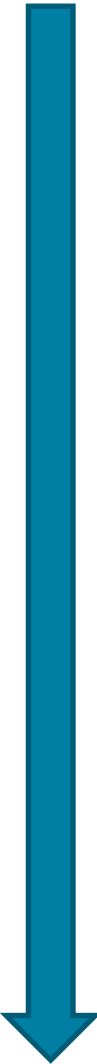
SOLVENCY II



REVISED STANDARDS

Underwriting Management
Claims Management
Reserving
Governance
Risk Management
Scope, Use & Change
Modelling Design & Implementation
Validation
Investment Management
International Regulatory
Compliance
Conduct Risk
Operating at Lloyd's

Governance standard example



GROUPING
HIGH LEVEL SUBJECT
AREA

Governance

SUBJECT
BRIEF DESCRIPTION OF
THE SUBJECT OF THE
REQUIREMENT

Effective System of Governance

STANDARD

Managing Agents shall have in place an effective system of governance which provides for sound and prudent management of the business.

REQUIREMENT

The system of governance shall:
-be proportionate to the nature, scale and complexity of the operations of the business
-provide for effective cooperation, internal reporting and communication of information at all relevant levels of the business
-include compliance with the requirements laid down in the SII Framework directive, Articles 42 to 49

Standards and Solvency II compliance

- ▶ Lloyd's to undertake a mapping from the PRA IMAF 300+ requirements
- ▶ Mapping to be validated by one of the "Big 4"
- ▶ To be published to the Market
- ▶ Boards will be able to place reliance that meeting the standards means meeting the Solvency II requirements in both their sign-off to Lloyd's and PRA

Conduct risk - update

- ▶ What have we seen since the last briefing?
 - FCA ongoing activity: risk assessments of agents and thematic work
 - FCA remain of the view that managing agents are behind peer group

- ▶ What are we doing?
 - Conduct minimum standards work
 - Delegated authorities enhancements: include new Consumer Product Binder regime, enhanced coverholder audit scope
 - Complaints: new UK Code in 2013. Now looking at overseas complaints reporting and handling

Conduct risk – minimum standards

- ▶ Minimum standards work: Key priority for 2014
- ▶ Clear requirements for agents to ensure they treat customers fairly. Include -
 - Assessment of product risk
 - Effective product governance controls (design, sales, post-sale services)
 - Collection and effective use of management information throughout the product lifecycle
- ▶ Currently working with the FCA so the minimum standards reflect their expectations.
- ▶ Aim: Managing agents' compliance with the min standards should give the FCA the assurance they need on the effective oversight of this risk in the Market
- ▶ Timing: launch July 2014, implementation 1 Jan 2015

Conduct risk – ongoing assessment

- ▶ Conduct Risk minimum standards will be effective from 1 January 2015
- ▶ Lloyd's will be also implementing a revised framework for the assessment of agent compliance with new standards:
 - Lloyd's will be undertaking effectiveness reviews against the Conduct Risk standards from 2015 onwards
 - Minimum expectation for January 2015 is that agents will have undertaken a gap analysis against the standards and have a clear implementation plan to achieve compliance
 - Implementation plans will need to be submitted to Lloyd's during January 2015
- ▶ From January 2015, a RAG status will be assigned to each agent to assess progress with compliance with the new standards, this will be monitored by the Standards Assurance Group

Questions...

