

SOLVENCY II DIRECTOR BRIEFING

20 JULY 2015

JOHN PARRY

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AGENDA

- ▶ **Lloyd's Solvency II programme update**
- ▶ **Syndicate workstream**
- ▶ **Pillar 3**
- ▶ **Questions**



LLOYD'S IMAP SUBMITTED TO PRA

- ▶ Addresses over 300 Solvency II requirements whilst articulating unique structure of Lloyd's
- ▶ 7,417 pages including:
 - Covering letter
 - Overview documents describing Lloyd's
 - 102 IMAP documents¹
 - 55 supporting documents²

¹ Provided to address specific IMAP requirements

² Providing additional information and evidence to support the IMAP



IT'S BEEN A BIG EFFORT...

- ▶ Major programme since 2009 across the Corporation...
- ▶ ...and each of over 50 managing agents
- ▶ Cost of implementation estimated at over £300m¹
- ▶ More than 200² Corporation staff directly involved
- ▶ A strong commitment shown across the market to get ready
- ▶ Extensive engagement by Lloyd's and PRA
- ▶ Assurance gained through Audit, QA and model validation

¹ Total for market and Corporation

² Estimate taking into account staff no longer employed at the Corporation



...AND WE HEAR THE OUTCOME IN DECEMBER

- ▶ PRA have six months to review
 - 30 days to advise if application is 'complete'
- ▶ We expect ongoing discussions with the PRA but do not expect a formal decision until end of 2015
- ▶ Lloyd's will continue to work closely with PRA during this period
- ▶ Around 20 IMAP firms (Lloyd's counted as one) still in the process
 - Originally around 100 were involved
- ▶ PRA will advise all IMAP firms in December whether or not they have got model approval
- ▶ **We remain confident of securing model approval**



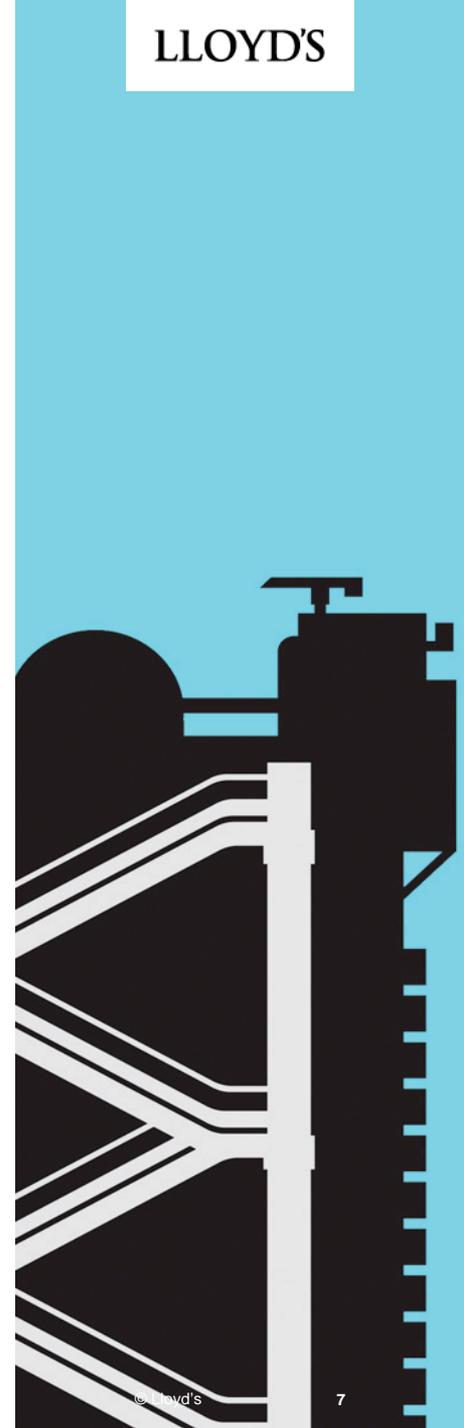
OUR CONTINGENCY PLAN...

- ▶ Failure to obtain model approval remains a key risk as outlined in the Lloyd's Annual Report
- ▶ If PRA don't approve the model we will need to set capital using the standard formula or a mix of partial model/standard formula
 - This will result in a very significant rise in Lloyd's regulatory capital
- ▶ PRA will let Lloyd's know in August if we are not on track for model approval



...REQUIRES POTENTIAL FURTHER CAPITAL

- ▶ Would be implemented as an interim measure pending a revision to the LIM
- ▶ Extra capital from members for 2016 (although this is not our current expectation)
 - Achieved through higher economic uplift
- ▶ Potential strengthening of Central Fund
- ▶ Remediate issues with the LIM and prepare a fresh IMAP...
- ▶ ...to secure full model approval as soon as possible



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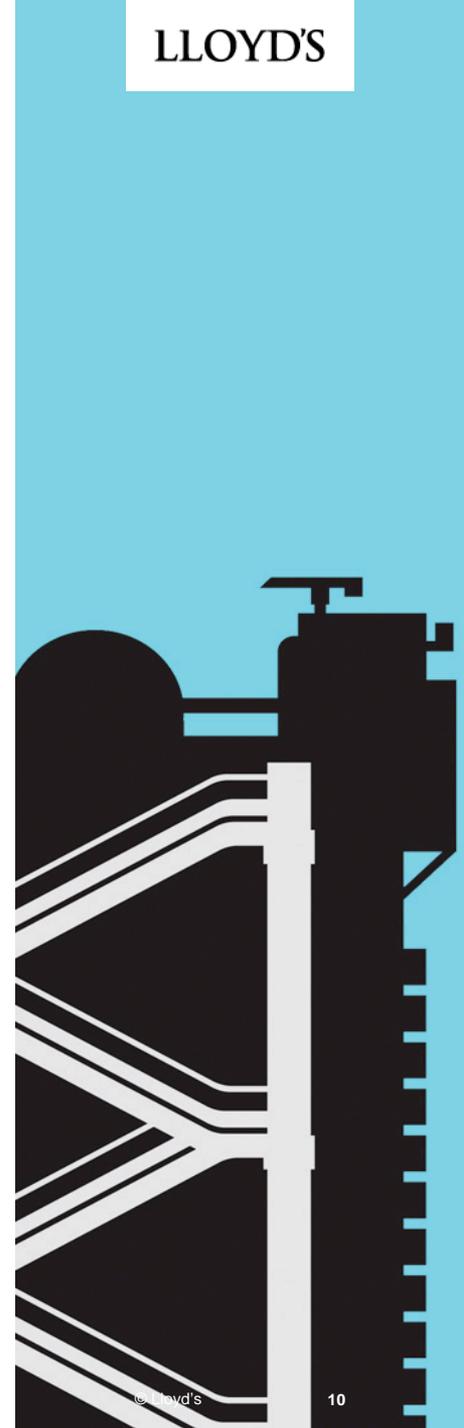
SYNDICATE SOLVENCY II READINESS

- ▶ An intensive round of reviews of syndicate readiness took place in Q1
- ▶ Remaining red agents reviewed again during Q2
- ▶ At IMAP submission a very small number of red agents remain
 - remediation plans agreed with agents which is still ongoing
- ▶ **Red rating** = 20% capital loading for mid-year Coming into Line
- ▶ Discussions continue with PRA over syndicate readiness
 - Challenge of Lloyd's views on agent status
 - A large amount of detailed evidence expected to justify our views
- ▶ New syndicates continue progress towards full compliance within timescale agreed at point of approval (usually 12 or 24 months)



LLOYD'S REVIEW OF CAPITAL & BUSINESS PLANS

- ▶ Capital & Planning Group (CPG) activities for the 2016 YOA are now underway
 - All syndicate draft business plans and SCRs being reviewed and considered by CPG
- ▶ Issues arising from review of capital could impact syndicate Solvency II ratings
- ▶ CPG also take into account syndicate minimum standard compliance
- ▶ Material concerns could lead to application of prudential measures
 - Business Plan restrictions
 - Capital Loadings



SYNDICATE MODEL CHANGES

- ▶ All major model changes require Lloyd's approval in readiness for a Solvency II live environment in 2016
- ▶ Enables Lloyd's to **continually monitor** syndicate internal models as they evolve
 - Pre-approval of major model changes by the Standards Assurance Group (SAG) ahead of implementation by the managing agent
 - Links in to the annual CPG process
 - Major model changes reviewed by SAG, with capital impact reviewed by CPG
- ▶ Dry Run process is in place for 2015 with a number of changes already received and approved by SAG
 - Process is driven by Risk Assurance team with technical input where required from eg MRC
- ▶ We will embed these processes into BAU oversight...
 - ...learning from the work we are doing this year



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- ▶ Next steps



INCREASED FOCUS ON PILLAR 3...

Pillar 1

Capital and Solvency

Balance sheet valuation & capital requirements

Harmonised standards for the valuation of assets and liabilities, and the calculation of capital requirements

Pillar 2

ORSA and Regulatory

Governance and supervisory review process

To help ensure insurers have good monitoring and management of risks, and adequate capital

Pillar 3

Disclosure

Market discipline and disclosure

Harmonisation of supervisory reporting requirements that allow capital adequacy to be compared across institutions



...WITH 'LIVE' REPORTING STARTING EARLY NEXT YEAR

- ▶ Lloyd's has introduced Pillar 3 requirements **step by step**:
 - Technical provisions at end 2010
 - Solvency II balance sheet at end 2011
 - Asset data at end 2012
- ▶ **Interim reporting** was required at December 2014...
 - ...and again at September 2015
- ▶ **Live reporting** starts next year with
 - Opening balances
 - Quarterly reporting from Q1
 - Annual reporting at end 2016



PILLAR 3 IS AN INTEGRAL PART OF SOLVENCY II COMPLIANCE

- ▶ For Lloyd's to be able to meet its Pillar 3 requirements, all agents must be ready by end 2015
- ▶ Lloyd's is conducting a thematic review of agents' readiness in Q3 2015, taking into account:
 - Compliance so far in dry runs and interim reporting
 - Review of agents' Pillar 3 status reports submitted on 30 June 2015
- ▶ Continual assessment of agents' Solvency II compliance
 - Significant concerns over Pillar 3 may result in agent being downgraded from **green** to **red**
 - Consideration of prudential measures by Lloyd's



PILLAR 3 NEXT STEPS

- ▶ Lloyd's thematic review teams will provide feedback to agents by end September
 - Main themes will be addressed at the Pillar 3 market briefing in October

- ▶ Lloyd's will continue to help the market complete its preparations
 - Further guidance on treatment of delegated authorities planned Q3
 - Instructions and software (CMR) will be updated for EIOPA final changes



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