



SOLVENCY II AT LLOYD'S: FINAL PUSH TOWARDS IMAP

Directors' Briefing
22 September 2014

AGENDA

▶ View from the PRA

- Andrew Bailey, Deputy Governor Bank of England and CEO of the PRA
- Chris Moulder, Director of General Insurance, PRA

▶ Lloyd's – completing the journey to IMAP

- Sean McGovern, Chief Risk Officer and General Counsel
- John Parry, Interim Finance Director

▶ View from the PRA

- Andrew Bailey, Deputy Governor Bank of England and CEO of the PRA
- Chris Moulder, Director of General Insurance, PRA
- Q&A

Finally, the end is in sight...



...but we still have much to do to get over the line

- ▶ Lloyd's needs to:
 - Focus on the critical risk, i.e. failure to achieve full model approval
 - Engage with PRA and respond to feedback to deliver revised plan and timetable
 - Introduce additional resource to provide assurance and independent validation
 - Refine critical path to enable progression and resolution of key risks

- ▶ Agents need to:
 - Respond to Lloyd's and PRA feedback
 - Complete preparations ready for Board attestation on 12 December

Our priority is addressing the key risks to model approval...

- ▶ We have responded to key PRA feedback, built around critical path leading to IMAP submission:
 - Central model design
 - Model validation independence
 - Governance
 - Managing agent compliance

- ▶ A clear timetable of delivery for PRA:
 - Time provided for three iterations for each critical component and draft feedback both ways

- ▶ Flexible ongoing approach to enable swift response and reorganisation of timetable if needed

...by responding to helpful and specific PRA feedback

Increased focus on independence and Board engagement...

- ▶ Towers Watson appointed to provide validation support following competitive tendering process
 - Directed by Head of Internal Audit as LIM Validator
 - Increased independence and credibility
 - Focus will be on areas of greatest materiality and judgement
 - Enhanced opportunity for informed challenge by Risk Committee

- ▶ Board engagement stepped up...
 - ...with sufficient time allocated for review and challenge

...and giving the Board the tools to provide sufficient challenge

Our launch of the Minimum Standards links Solvency II to...

- ▶ Launched July 2014
- ▶ 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

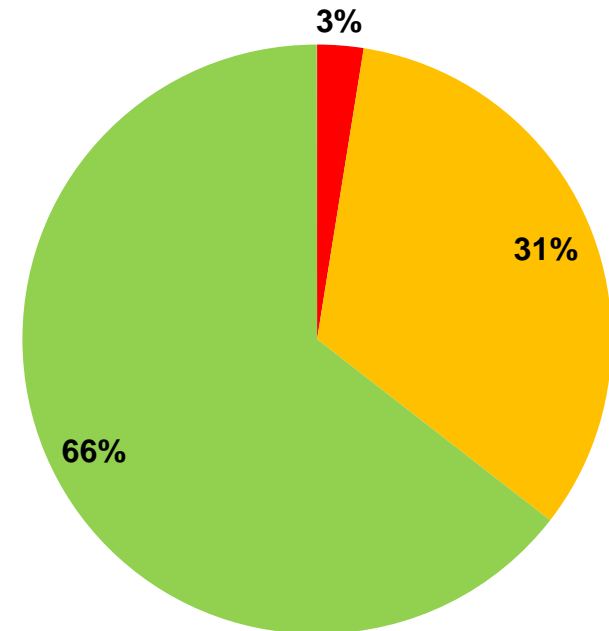
MINIMUM STANDARDS	
CODE	NAME
MS1	Underwriting Management
MS2	Claims Management
MS3	Governance
MS4	Risk Management
MS5	Scope, Change and Use
MS6	Modelling, Design and Implementation
MS7	Validation
MS8	Investment Management
MS9	Reserving
MS10	Regulatory
MS11	Conduct Risk
MS12	Operating at Lloyd's

...our ongoing expectations of business conduct at Lloyd's

We are still pushing to secure managing agent compliance...

- ▶ We still expect each agent to meet all the tests and standards by end 2014
 - Capital loadings applied for 2015 with additional measures available
 - Approach supported by PRA
- ▶ Lloyd's engagement with PRA has increased
 - Review work for each agent aligned
 - PRA feedback is as key as Lloyd's points
- ▶ Our review process designed to give PRA confidence in Lloyd's as 'supervisor'
 - Set out how we have assessed agents against 300 tests and standards
 - Mapped Solvency II requirements against Lloyd's Minimum Standards
 - Articulate Target Operating Model

Managing Agent ratings by size*



* Ratings September 2014: based on capital materiality
 – Solvency Capital Requirement (SCR) to ultimate

Note: 33 agents rated green, 22 amber and 4 red.
 In very general terms, the larger agents are rated better than average

...and provide PRA confidence in our review process

No agent is fully compliant yet...

- ▶ **All** green agents still have work to do

- ▶ Key themes for further work are:
 - Dependencies
 - Modelling methodologies
 - One year SCR number & approach to risk emergence
 - Validation (governance, independence, consistency of applying policies)
 - Use test

- ▶ Board understanding of the remaining issues is critical:
 - Capture all outstanding issues
 - Plan to address PRA and Lloyd's feedback
 - Determine what is difficult and what is easier to address...
 - ...and allocate resources to address them accordingly

...and there is little time to complete the work

Timeline	Green agents	Amber agents	Red agents
Current			
Oct/Nov	Lloyd's agent ratings reviewed and signed off		
November		10% restriction for capital release	20 % loading on capital
12 December (by)	Agents submit Board attestations		
Q1 2015	Lloyd's/agents' closure of any remaining gaps		
March 2015	Lloyd's final assessment: binary (green/red only)		
Spring 2015 capital tests			20 % loading on capital

A final push is needed to get over the line...

- ▶ It is in all of our interests to secure IMAP approval
- ▶ We have detailed plans to address all remaining issues both centrally and across the market
- ▶ We are in close and constructive contact with the PRA at all levels
- ▶ We have signalled our commitment to securing the market's compliance:
 - By applying meaningful prudential measures where agent progress is insufficient
 - Taking action now, not waiting until 2016

...and make the approval decision unequivocal

