



SOLVENCY II DIRECTOR BRIEFING

2 FEBRUARY 2015

AGENDA

- **Lloyd's Solvency II programme update**
John Parry, Director of Finance
- **Pillar 3**
John Parry, Director of Finance
- **Syndicate workstream - recap of 2014**
Sean McGovern, Chief Risk Officer and General Counsel
- **Q1 2015 Solvency II ratings**
Sean McGovern, Chief Risk Officer and General Counsel
- **Life after IMAP**
Sean McGovern, Chief Risk Officer and General Counsel
- **Questions**

LLOYD'S SOLVENCY II PROGRAMME UPDATE

- ▶ Intensive work across all workstreams
 - Target IMAP submission date of end April
 - Central Model Design
 - External validation
 - Towers Watson directed by Head of Internal Audit as LIM Validator
 - Increased independence and credibility
- ▶ Contingency Plan
 - Required of all IMAP firms
- ▶ Intensive engagement with the PRA at all levels
- ▶ EIOPA CAT
 - Due by end of February but potential for delay/ changes which could impact IMAP applications

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FOCUS INCREASING ON PILLAR 3 NOW...

- ▶ A number of submissions required for 2015:
 - Scheduled submissions for **capital setting**
 - **Interim Reporting** submissions for PRA purposes
 - Dry Run submissions in **preparation for SII live** reporting in 2016 and beyond

Timing	Agent submission	Purpose
5 March 2015	31.12.2014 QMC (Solvency II balance sheet)	Capital setting
16 April 2015	31.12.2014 interim reporting returns	PRA requirement
30 June 2015	Pillar 3 preparations status template	Preparation
3 Sept 2015	30.06.2015 QMC	Capital setting
24 Sept 2015	Dry run of all annual templates (at 31.12.2014)	Preparation
5 Nov 2015	30.09.2015 interim reporting returns	PRA requirement
March 2016	Opening position Pillar 3 returns - Solvency II balance sheet, own funds, SCR and MCR	Solvency II 'live'
May 2016	First full Pillar 3 quarterly return at 31.03.2016	Solvency II 'live'
April 2017	First full Pillar 3 annual return at 31.12.2016	Solvency II 'live'

INTERIM REPORTING

- ▶ Interim reporting requirements at 31 December 2014 apply to all major insurance undertakings including Lloyd's
- ▶ Returns from syndicates must be submitted by 16 April 2015
 - Board sign-off required...
 - ...but no audit
- ▶ Lloyd's requires submissions from each syndicate
 - Will review and then combine with central data for provision to PRA as aggregate return for Lloyd's

TO BE READY FOR PILLAR 3 YOU MUST ENSURE THAT...

- ▶ Data gaps are addressed
- ▶ IT solution is implemented
- ▶ Resources are trained
- ▶ In house dry run is carried out
- ▶ Market dry run is used as a leaning and preparatory process

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SYNDICATE WORKSTREAM - RECAP OF 2014

- ▶ SII ratings changed to reflect agents' progress against the full SII tests and standards
- ▶ Launch of the new Minimum Standards Framework in July 2014
 - Solvency II requirements embedded into the new minimum standards
- ▶ Close interaction between the Standards Assurance Group (SAG) and the Capital & Planning Group (CPG)
 - Issues identified through CPG process fed into SAG ratings
 - SAG ratings confirmed as part of CPG approval process
 - Prudential measures applied for November CIL
- ▶ Extensive PRA review work of the 30 sample agents followed by feedback

CONCLUSIONS OF THE 2014 SII RATINGS

- ▶ All agent SII ratings were confirmed for November Coming into Line
 - 34% - “assessed as being at risk of not being SII compliant by year end”
 - 66% - “assessed as being on track to be SII compliant by year end”
- ▶ Prudential measures applied to 34%
 - £600m retained in FAL
- ▶ PRA feedback taken into account
- ▶ Significant work was required for agents at risk of non-compliance
- ▶ Still work to do for 66% to remain green going in to 2015

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REVIEWS AND RATINGS Q1 2015

JANUARY:

- ▶ Round of SAG meetings in second half of January to review all agents
- ▶ Ratings are now binary: **Red** or **Green**
 - ▶ **Green: all internal model tests and standards are met**
 - ▶ **Red: not all internal model tests and standards are met**
- ▶ Detailed evidence required to show that issues have been addressed (regardless of whether issue was identified by Lloyd's or the PRA)
- ▶ Ratings are based on directive internal model requirements:
 - ▶ internal model tests and standards
 - ▶ not driven by ORSA, Actuarial Function Reports, Pillar 3 unless issues are sufficiently material
 - ▶ Just 1 internal model test and standard failure is enough to drive a red rating

REVIEWS AND RATINGS Q1 2015

- ▶ Position as of now...
 - ▶ A number of agents rated red
 - ▶ Common themes:

Validation	<ul style="list-style-type: none"> ➤ Completeness and effectiveness of tests ➤ Independence of validation
Model Use and Embedding	<ul style="list-style-type: none"> ➤ Further evidence required of sufficient collective understanding at Board level
Documentation	<ul style="list-style-type: none"> ➤ Previous feedback not addressed, particularly on policies, eg model change policies

- ▶ Some issues will be easier to address than others which are longer term

REVIEWS AND RATINGS Q1 2015

FEBRUARY:

- ▶ Sole focus during February will be on red agents (subject to follow up review work that the PRA wish to carry out on Lloyd's position which will include some green agents)
- ▶ Ratings will be reconsidered by SAG at end of February
- ▶ Formal communication of all agent ratings (red and green) by end February
- ▶ For agents rated red at end February:
 - ▶ Remediation plan will be agreed depending on specific issue(s) driving the rating
 - ▶ **Red rating** = 20% capital loading for mid-year Coming into Line

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LIFE AFTER IMAP...

- ▶ Lloyd's Minimum Standards Framework
- ▶ Solvency II requirements “baked in” to the new minimum standards
- ▶ A number of self assessments staggered over the course of 2015
- ▶ Market Oversight Plan to be published

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

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