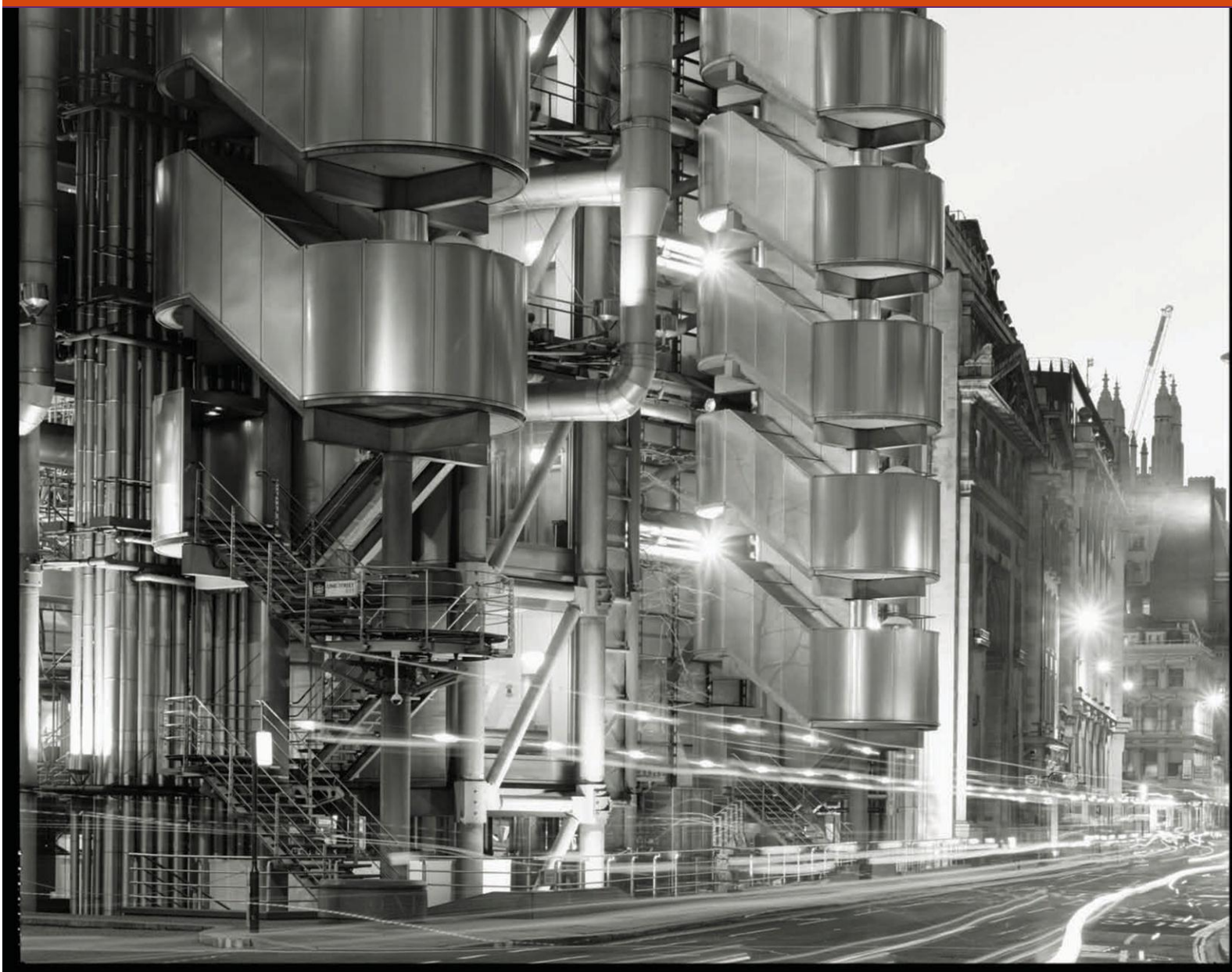


SOLVENCY II

BOARD CONFIRMATION OF SOLVENCY II STATUS

25 OCTOBER SUBMISSION
JULY 2013



Background

The “Solvency II 2013 Guidance notes” set out the requirement for all managing agents to submit a board confirmation of Solvency II status on 25 October 2013. This document provides further guidance on the requirements of this submission and provides a template for agents to use to submit the declaration to Lloyd’s.

Purpose of submission

As previously advised, all syndicates are required to have an internal model which will demonstrate compliance with the Solvency II tests and standards. Syndicate internal models form a key part of the Lloyd’s Internal Model (LIM) and Lloyd’s review of syndicate models will need to demonstrate that the three core requirements for internal models are being met by each agent:

- Article 101 – the model must be able to calculate a Solvency Capital Requirement (SCR)
- Article 112(5) – there are adequate systems in place for identifying, measuring, managing and reporting risk
- Articles 120-126 – the model meets the tests and standards on use, statistical quality, profit & loss attribution, calibration, validation, documentation and external models & data.

Final Application & Sign off (FAS) submissions were made by all agents in October 2012. Following the delay in the implementation of Solvency II, these were assessed against the “principles” rather than the full tests and standards. Lloyd’s formed a view on the status of each agent against the principles and this was formally communicated in a letter from Luke Savage to all agents in February 2013.

The purpose of the board confirmation to be submitted on 25 October 2013 is for each agent to formally re-affirm their current position, both against the principles and the full tests and standards. This will ensure that Lloyd’s has an agreed position with each individual agent which clearly states any outstanding work or review yet to be completed ahead of full Solvency II implementation.

Basis of submission

All agents are therefore required to submit a formal board confirmation of status which sets out the current position. The attached templates should be used and the “as at” date of the assessment should be reflected in the letter submitted.

The following templates are attached:

- **Appendix 1** : Submission letter – declaration of Solvency II status
- **Appendix 2** : Schedule – status of completion
- **Appendix 3** : Statement of Board Responsibilities (*unchanged from 2012 version*)

Appendix 1 - Submission Letter

Agents are required to use the attached template for the letter and the wording should not be altered or changed. The letter should be signed by the CEO, CFO/FD or the Senior Nominated Person for Solvency II (provided they are a director) on behalf of the board. The declarations and statements made therein should be subject to full board sign off in line with the statement of board responsibilities.

Appendix 2 – Schedule

Lloyd's will provide to each individual agent a completed schedule in line with the template provided at Appendix 2. Lloyd's view on the current position against both the principles and the full tests and standards will be set out using the following criteria:

- **GREEN** – evidence is available that work is completed
- **RED** – Lloyd's has evidence that work is incomplete / agent has advised work incomplete
- **GREY** – Lloyd's has further review work to conduct to reach a conclusion

There is a second column alongside each of these for the agent to complete to represent their view of the status of each element against both the principles and the full tests and standards.

Agents should note that these templates will be agent specific and will be issued by Lloyd's to all agents as soon as possible and **by no later than the end of August**. Lloyd's will complete columns 1 and 3 to represent our view and will also initially complete columns 2 and 4 on the same basis. Agents should then check each element and sign the form to ensure that it reflects the correct position.

The templates will be issued with a covering email which will set out the rationale and review timeframe for any areas marked as "pending". Agents may choose to mark "pending" elements as complete where appropriate but should note that the Lloyd's status will remain as pending until planned review work is complete.

Where both the Lloyd's and agent status for a particular element agree, no additional commentary or information is required. However, where an agent changes the rating in column 2 and/or 4 to reflect a different view on status, a note should be included in column 5 with a brief explanation of the rationale for the change.

Appendix 3 – Statement of Board Responsibilities

The wording of this document is unchanged from the 2012 FAS submissions. Agents should note that in obtaining board sign off on the letter and schedule as above, they should ensure that the board responsibilities as set out in Appendix 3 have been and continue to be adhered to on an on-going basis. A version of the statement can be included with the submission of the letter and schedule but is not mandatory.

Lloyd's review of submissions

Agents should note that no additional documents are required to be submitted on 25 October and Lloyd's does not propose to request significant additional documentation to support the review of the confirmation. However, in instances where an agent status for a particular element differs to that of Lloyd's and a change is made to reflect this, further information may be requested to support this on an agent specific basis.

Lloyd's will provide to all agents by the end of the year an affirmation of the status agreed and notification of any appropriate change to an agents' overall Solvency II rating.

LETTER – DECLARATION OF SOLVENCY II STATUS

(to be addressed to Luke Savage, Finance Director, Lloyd's)

Authorisation of Internal Model in respect of [Agent name – Syndicate no]

In accordance with Lloyd's requirements under the Dry Run process and with Article 112 of Directive 2009/138/EC, I hereby request Lloyd's continued authorisation of the internal model in respect of [syndicate number(s)], in order that the model may be used to calculate the Solvency Capital Requirement (SCR).

I confirm that:

- (Agent) has maintained at least the status as set out in the FAS letter from Luke Savage in February 2013 and has continued to make progress against compliance with the full Solvency II tests and standards
- the Internal Model for [Syndicate no] has been validated as meeting the model tests and standards required by Lloyd's (other than any exceptions noted within the confirmation statements enclosed) and that the validation report submitted on [26 September] supports this
- the Internal Model has been used by [Syndicate no] during 2013 as part of [Agent]'s risk management system and decision making processes in accordance with the requirements of Article 120 of Directive 2009/138/EC
- the information contained in this letter and the attached "Status of completion schedule" is accurate and complete as at [insert date] to the best of my knowledge and I have taken all reasonable steps to ensure that this is the case. All material facts or details relevant to the confirmation have been disclosed
- this application has been subject to full board approval and that we have discharged our responsibilities in line with the statement of board responsibilities

I am aware that firms are required to deal with the PRA, FCA and Lloyd's in an open and cooperative way, including with respect to the provision of information. I will notify Lloyd's immediately if there is a significant change to the information given to support the submission. I understand that failure to do so may result in a delay in the processing of this submission or Lloyd's ability to make a determination.

I would advise that the main contact for this declaration is [insert contact name]

Yours sincerely

[Signature]

[Name – CEO/CFO/FD/SNP]

[Managing Agent]

STATUS OF COMPLETION

WORKSTREAM/ELEMENT						MEETS THE PRINCIPLES OF THE TESTS & STANDARDS		MEETS THE FULL TESTS & STANDARDS		AGENT:	COLUMN 5 - COMMENTS
						COLUMN 1 LLOYD'S	COLUMN 2 AGENT	COLUMN 3 LLOYD'S	COLUMN 4 AGENT		
INTERNAL MODEL SCR											
IMSCR002	Insurance risks	Yes	Yes	Yes	Yes	No changes					
IMSCR003	Other risks	Yes	Yes	Yes	Yes	No changes					
IMSCR004	Aggregate SCR	Yes	Yes	Pending	Pending	No changes					
VALUATION AND BALANCE SHEET											
VBS002	Valuation of assets & liabilities (excluding technical provisions)	Yes	Yes	Yes	Yes	No changes					
TECHNICAL PROVISIONS AND STANDARD FORMULA											
TPSF002	Standard formula SCR	Yes	Yes	Yes	Yes	No changes					
TPSF003	Valuation process	Yes	Yes	Yes	Yes	No changes					
TPSF004	Valuation methodology	Yes	Yes	Pending	Pending	No changes					
TPSF005	Data	Yes	Yes	Yes	Yes	No changes					
TPSF006	TP Assumptions	Yes	Yes	Yes	Yes	No changes					
TPSF007	Validation	Yes	Yes	Pending	Pending	No changes					
MODEL VALIDATION											
MVAL002	Probability distribution forecast and risk ranking	Yes	Yes	Pending	Pending	No changes					
MVAL003	Methodological adequacy	Yes	Yes	Yes	Yes	No changes					
MVAL004	Methodological consistency and credibility	Yes	Yes	Yes	Yes	No changes					
MVAL005	Assumptions	Yes	Yes	Yes	Yes	No changes					
MVAL006	Data directory and data policy	Yes	Yes	Yes	Yes	No changes					
MVAL007	Dependencies	Yes	Yes	Pending	Pending	No changes					
MVAL008	Risk mitigation techniques	Yes	Yes	Yes	Yes	No changes					
MVAL009	Fincl gtees and options, future mgmt actions and non cont pymts	Yes	Yes	Yes	Yes	No changes					
MVAL010	Calibration	Yes	Yes	Pending	Pending	No changes					
MVAL011	Validation	Yes	Yes	Pending	Pending	No changes					
MVAL012	Profit and loss attribution and backtesting	Yes	Yes	Pending	Pending	No changes					
MVAL013	Model robustness and stress and scenario testing	Yes	Yes	Yes	Yes	No changes					
MVAL014	External models and data	Yes	Yes	Yes	Yes	No changes					
GOVERNANCE, RISK MANAGEMENT AND USE											
GRMU002	General governance requirements	Yes	Yes	Pending	Pending	No changes					
GRMU003	Fit and proper	Yes	Yes	Yes	Yes	No changes					
GRMU004	Risk management	Yes	Yes	Yes	Yes	No changes					
GRMU005	Internal control	Yes	Yes	Yes	Yes	No changes					
GRMU006	Internal audit	Yes	Yes	Pending	Pending	No changes					
GRMU007	Actuarial function	Yes	Yes	Pending	Pending	No changes					
GRMU008	Outsourcing	Yes	Yes	Yes	Yes	No changes					
GRMU009	Risk Coverage	Yes	Yes	Yes	Yes	No changes					
GRMU010	Use test	Yes	Yes	Pending	Pending	No changes					
GRMU011	Model governance	Yes	Yes	Yes	Yes	No changes					
GRMU012	Model change policy	Yes	Yes	Pending	Pending	No changes					
GRMU013	ORSA process	Yes	Yes	Pending	Pending	No changes					
GRMU014	ORSA documentation	Yes	Yes	Pending	Pending	No changes					
GRMU015	ORSA outcomes	Yes	Yes	Pending	Pending	No changes					
REPORTING AND DISCLOSURE											
SREP002	Supervisory reporting and disclosure	Yes	Yes	No	No	No changes					
DOCUMENTATION AND FINAL APPLICATION											
DFA002	Documentation process	Yes	Yes	Pending	Pending	No changes					
DFA003	Design and operational details	Yes	Yes	Yes	Yes	No changes					
DFA004	Theory, assumptions, mathematical and empirical basis	Yes	Yes	Yes	Yes	No changes					
DFA005	Circumstances where the model does not work effectively	Yes	Yes	Yes	Yes	No changes					
DFA006	Model change documentation	Yes	Yes	Pending	Pending	No changes					
DFA007	Final application pack	Yes	Yes	Yes	Yes	No changes					

GENERAL COMMENTS	
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DECLARATION

We confirm that:

- The status above properly reflects the current status of progress on all workstreams and all feedback received to date
- Sufficient evidence to substantiate completion is available for Lloyd's review if required

SIGNATURE	
NAME	
DATE	
POSITION	

To be signed by CEO, FD/CFO or SNP

STATEMENT OF BOARD RESPONSIBILITIES

All managing agents will be required to provide an annual declaration in relation to compliance with the requirements of Solvency II. At a minimum, the board should consider each of the following:

1. The Board is responsible for confirming the status of Solvency II for Internal Model Authorisation in accordance with the requirements of the Solvency II Directive and the current EIOPA level 2 and level 3 guidance (including all updates at the point of the declaration). This includes, but is not limited to, the following high-level requirements from the Solvency II Directive:
 - Article 101 – the model must be able to calculate a Solvency Capital Requirement (SCR)
 - Article 112(5) – there are adequate systems in place for identifying, measuring, managing and reporting risk
 - Articles 120-126 – the model meets the tests and standards on use, statistical quality, profit & loss attribution, calibration, validation, documentation and external models & data
2. The Board is responsible for submitting this declaration to Lloyd's and thereby requesting on-going authorisation for the use of its internal model for the purpose of assessing regulatory and member level capital.
3. The Board is required to confirm that any material contained within the declaration properly represents the current status of its Solvency II compliance and all material facts or details relevant to the declaration have been disclosed.
4. The Board is required to prepare an SCR for each financial year which fairly presents the financial position of the syndicate at the required 99.5% Value at Risk confidence level over both a twelve month time horizon (in line with the Solvency II Calibration Standards) and for one year of new business to ultimate (in line with Lloyd's requirements). In preparing the SCR, the Board is required to:
 - Select appropriate assumptions and mathematical and empirical bases underlying the internal model
 - Operate a robust system of governance and control over the internal model to ensure quality and reliability of the model (including, but not limited to validation policies and independent assurance)
 - Provide additional disclosures when compliance with the Directive and EIOPA guidance is insufficient to enable users to understand the limitations of the internal model
 - Attest that the agency has complied with the Solvency II Directive and EOIPA guidance requirements, subject to any material departures being disclosed and advised to Lloyd's
 - Maintain comprehensive evidence of this compliance (both at the time of declaration and subsequently) in a manner that is relevant, reliable, comparable and understandable
5. The Board is responsible for implementing and maintaining an appropriate assurance process over its internal model and associated risk management processes to assist it in discharging the responsibilities listed here. The Board is further responsible for ensuring that evidence of this process is available for review if requested.

6. The Board is responsible for keeping appropriate documentation and records to disclose with reasonable accuracy at any time the status of compliance with the requirements
7. The Board is also responsible for ensuring that this compliance is demonstrably maintained on an on-going basis following the application, and for notifying Lloyd's as soon as possible if any of the conditions for compliance cease to be met. This would include, but is not limited to:
 - That the calculated SCR and one-year to ultimate numbers remain appropriate in light of changes to the agent's business and risk profile
 - That the agent's policies, systems, processes, procedures, and documentation continue to represent compliance in an appropriate manner
 - In particular, the Board is required to notify Lloyd's as soon as reasonably possible if such circumstances arise that would have had a material impact on the application.
8. The Board confirms that the declaration has been subject to full Board approval and is signed on its behalf by the CEO, Finance Director or Senior Nominated Person (provided they are a board member)