

SOLVENCY II

BOARD CONFIRMATION OF SOLVENCY II STATUS

12 DECEMBER 2014 SUBMISSION
AUGUST 2014



Background

The “Solvency II 2014 Guidance notes” set out the requirement for all managing agents to submit a board confirmation of Solvency II status on 12 December 2014. 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.

Lloyd’s intends to submit its application for the Lloyd’s Internal Model (‘LIM’) approval to the Prudential Regulation Authority (‘PRA’) during April 2015.

All agents are required to submit a formal request to Lloyd’s for authorisation of their internal model for use in calculating both the regulatory SCR and the one year to ultimate SCR. Agents should note that authorisation of the internal model requires that ALL tests and standards are met and that this is a condition precedent for using the internal model as the basis for determining regulatory and member level capital requirements.

In turn, Lloyd’s is required to confirm to the PRA whether or not it considers that each individual syndicate model has met the tests and standards for internal model approval.

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 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.

A similar board confirmation exercise was performed in October 2013 and we propose that for December 2014, it follows a similar format, bar some changes, most notably that for this submission there is no requirement to attest to the ‘principles of the tests and standards’. Lloyd’s is now expecting all syndicates to comply with the full tests and standards for Internal Model approval by the end of 2014.

The purpose of the board confirmation, to be submitted on 12 December 2014, is for each agent to formally re-affirm their current position, against the full Solvency II tests and standards, and to submit a formal request to Lloyd’s for authorisation of their internal model for use in calculating both the regulatory SCR and the one year to ultimate SCR. 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 (for agents established for more than 2 years)
- **Appendix 2** : Submission letter – declaration of Solvency II status (for agents established for less than 2 years)
- **Appendix 3** : Schedule – status of completion
- **Appendix 4** : Statement of Board Responsibilities
- **Appendix 5** : Additional documentation required for Lloyd's as part of December attestation

Appendix 1 - Submission Letter (for agents which have been established for more than 2 years only)

Agents which have been established for more than 2 years are required to use the template in Appendix 1 for the letter, the wording should not be altered or changed. This letter is aimed at those agents that we would reasonably expect to be ready to use an internal model to calculate their SCR by April 2015.

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 - Submission Letter (for agents which have been established for less than 2 years only)

Agents which have been established for less than 2 years are required to use the template in Appendix 2 for the letter, the wording should not be altered or changed. The wording in this letter differs from that in Appendix 1, as it is intended to reflect those agents we would expect to be less progressed in their Solvency II readiness than their more established peers and therefore are unlikely to be ready to use an internal model to calculate the SCR by April 2015.

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.

Note that agents are only required to submit either the Appendix 1 or Appendix 2 submission letters, depending on their tenure at Lloyd's.

Appendix 3 – Schedule

Lloyd's will provide to each individual agent a completed schedule in line with the template provided at Appendix 3. Lloyd's view on the current position against 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

There is a second column alongside each Solvency II element for the agent to complete to represent their view of the status of each element against the full tests and standards

Note that where an agent changes the rating for any particular element in the schedule, an explanation for this change should be provided. This should be provided in the second tab entitled "Explanation of changes". Where agents have set their current position to **RED**, agents should also include further detail on what plans are in place to move the position to **GREEN**. This will enable Lloyd's to review plans agents have in place in preparation for IMAP submission in April 2015 and provide feedback as necessary.

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 31 October**. Lloyd's will complete column 1 to represent our view at this point in time. Agents should complete column 2 (and complete the "Explanation of Changes" tab as necessary) and then check each element and sign the form to ensure that it reflects the correct position.

Where both the Lloyd's and agent status for a particular element agree, no additional commentary or information is required.

Appendix 4 – Statement of Board Responsibilities

Agents should note that in obtaining board sign off of the letter and schedule, they should ensure that the board responsibilities as set out in Appendix 4 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.

Appendix 5 – Additional documentation to submit to Lloyd's

Agents should note that some additional documents will be required to be submitted on 12 December 2014 as part of the attestation, and the specific details of these are listed in Appendix 5. In addition to the submission of these mandatory documents, further documentation may be requested by Lloyd's as part of the review of the agent attestations during Q1 2015.

Lloyd's review of submissions

During Q1 2015, Lloyd's will review all agent submissions. Where an agent's attestation shows gaps remaining, Lloyd's will continue to work with the agent during Q1 2015 to assess and monitor the closure of any remaining gaps, and where appropriate, obtain further evidence to demonstrate the closure of these gaps. Lloyd's will provide to all agents an affirmation of the status agreed and notification of any change to an agents' overall Solvency II rating by the end of Q1 2015.

APPENDICES

APPENDIX 1

LETTER – DECLARATION OF SOLVENCY II STATUS (AGENTS ESTABLISHED FOR MORE THAN 2 YEARS)

(to be addressed to Sean McGovern, Chief Risk Officer and General Counsel, Lloyd's)

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

In accordance with Lloyd's requirements and 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:

- The assessment made by the Board of [Agent] is a true and fair view of the compliance with the full Solvency II tests and standards as at 12 December 2014.
- the Internal Model for [Syndicate no(s)] 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 [23 September] supports this.
- the Internal Model has been used by [Syndicate no(s)] during 2014 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.

Yours sincerely

[Signature]

[Name – CEO/CFO/FD/SNP]

[Managing Agent]

[Date]

APPENDIX 2

LETTER – DECLARATION OF SOLVENCY II STATUS (AGENTS ESTABLISHED FOR LESS THAN 2 YEARS)

(to be addressed to Sean McGovern, Chief Risk Officer and General Counsel, Lloyd's)

Board Attestation in respect of [Agent name – Syndicate no(s)] current Solvency II position

In accordance with Lloyd's requirements and under Article 112 of Directive 2009/138/EC, I hereby attest the position of [Agent Name – Syndicate No(s)] in respect of the firm's Solvency II readiness on behalf of the Board.

I confirm that:

- The assessment made by the Board of [Agent] is a true and fair view of the ongoing work being conducted as at 12 December 2014 to ensure compliance with the full Solvency II tests and standards.
- the Internal Model for [Syndicate no(s)] is in the process of being validated to meet 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 [23 September] supports this, where this is appropriate.
- 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.

Yours sincerely

[Signature]

[Name – CEO/CFO/FD/SNP]

[Managing Agent]

[Date]

APPENDIX 3

STATUS OF COMPLETION

WORKSTREAM/ELEMENT		S2 REQUIREMENT		MEETS THE FULL TESTS & STANDARDS	
		LV1 TEXT	LV2 TEXT	COLUMN 1 LLOYD'S	COLUMN 2 AGENT
		SYNDICATE NO:		DX1	
		AGENT:		DX1	
INTERNAL MODEL SCR					
IMSCR002	Insurance risks	101,102	N/A	Yes	
IMSCR003	Other risks	101,102	N/A	Yes	
IMSCR004	Aggregate SCR	101,102	N/A	Yes	
VALUATION AND BALANCE SHEET					
VBS002	Valuation of assets & liabilities (excluding technical provisions)	75	N/A	Yes	
TECHNICAL PROVISIONS AND STANDARD FORMULA					
TPSF002	Standard formula SCR	103-111	N/A	Yes	
TPSF003	Valuation process	76,84	N/A	Yes	
TPSF004	Valuation methodology	77-82	N/A	Yes	
TPSF005	Data	82	N/A	Yes	
TPSF006	TP Assumptions	76-77	N/A	Yes	
TPSF007	Validation	83	N/A	Yes	
MODEL VALIDATION					
MVAL002	Probability distribution forecast and risk ranking	121	228-237	Yes	
MVAL003	Methodological adequacy	121	228-237	Yes	
MVAL004	Methodological consistency and credibility	121	228-237	Yes	
MVAL005	Assumptions	121	228-237	Yes	
MVAL006	Data directory and data policy	121	228-237	Yes	
MVAL007	Dependencies	121	228-237	Yes	
MVAL008	Risk mitigation techniques	121	228-237	Yes	
MVAL009	Fincl gtees and options, future mgmt actions and non cont pymts	121	228-237	Yes	
MVAL010	Calibration	121	228-237	Yes	
MVAL011	Validation	121	228-237	Yes	
MVAL012	Profit and loss attribution and backtesting	121	228-237	Yes	
MVAL013	Model robustness and stress and scenario testing	121	228-237	Yes	
MVAL014	External models and data	121	228-237	Yes	
GOVERNANCE, RISK MANAGEMENT AND USE					
GRMU002	General governance requirements	41, 112 (5)	N/A	Yes	
GRMU003	Fit and proper	42, 112 (5)	273	Yes	
GRMU004	Risk management	44, 112 (5)	259	Yes	
GRMU005	Internal control	46, 112 (5)	266	Yes	
GRMU006	Internal audit	47, 112 (5)	271	Yes	
GRMU007	Actuarial function	48, 112 (5)	272	Yes	
GRMU008	Outsourcing	49, 112 (5)	274	Yes	
GRMU009	Risk Coverage	44, 112 (5)	259	Yes	
GRMU010	Use test	120	223-227	Yes	
GRMU011	Model governance	41, 112 (5)	N/A	Yes	
GRMU012	Model change policy	125	243-246	Yes	
GRMU013	ORSA	45, 112 (5)	262	Yes	
REPORTING AND DISCLOSURE					
SREP002	Supervisory reporting and disclosure	35, 51, 53-55	N/A	Yes	
DOCUMENTATION AND FINAL APPLICATION					
DFA002	Documentation process	125	243-246	Yes	
DFA003	Design and operational details	125	243-246	Yes	
DFA004	Theory, assumptions, mathematical and empirical basis	125	243-246	Yes	
DFA005	Circumstances where the model does not work effectively	125	243-246	Yes	
DFA006	Model change documentation	125	243-246	Yes	
DFA007	Final application pack	125	243-246	Yes	

GENERAL COMMENTS	
-------------------------	--

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

STATUS OF COMPLETION

APPENDIX 3

WORKSTREAM/ELEMENT		RATIONALE FOR CHANGE IN RATING (DELETE ROWS AS APPROPRIATE)
INTERNAL MODEL SCR		
IMSCR002	Insurance risks	
IMSCR003	Other risks	
IMSCR004	Aggregate SCR	
VALUATION AND BALANCE SHEET		
VBS002	Valuation of assets & liabilities (excluding technical provisions)	
TECHNICAL PROVISIONS AND STANDARD FORMULA		
TPSF002	Standard formula SCR	
TPSF003	Valuation process	
TPSF004	Valuation methodology	
TPSF005	Data	
TPSF006	TP Assumptions	
TPSF007	Validation	
MODEL VALIDATION		
MVAL002	Probability distribution forecast and risk ranking	
MVAL003	Methodological adequacy	
MVAL004	Methodological consistency and credibility	
MVAL005	Assumptions	
MVAL006	Data directory and data policy	
MVAL007	Dependencies	
MVAL008	Risk mitigation techniques	
MVAL009	Fincl gtees and options, future mgmt actions and non cont pymts	
MVAL010	Calibration	
MVAL011	Validation	
MVAL012	Profit and loss attribution and backtesting	
MVAL013	Model robustness and stress and scenario testing	
MVAL014	External models and data	
GOVERNANCE, RISK MANAGEMENT AND USE		
GRMU002	General governance requirements	
GRMU003	Fit and proper	
GRMU004	Risk management	
GRMU005	Internal control	
GRMU006	Internal audit	
GRMU007	Actuarial function	
GRMU008	Outsourcing	
GRMU009	Risk Coverage	
GRMU010	Use test	
GRMU011	Model governance	
GRMU012	Model change policy	
GRMU013	ORSA	
REPORTING AND DISCLOSURE		
SREP002	Supervisory reporting and disclosure	
DOCUMENTATION AND FINAL APPLICATION		
DFA002	Documentation process	
DFA003	Design and operational details	
DFA004	Theory, assumptions, mathematical and empirical basis	
DFA005	Circumstances where the model does not work effectively	
DFA006	Model change documentation	
DFA007	Final application pack	

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 EIOPA 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, CFO/Finance Director or Senior Nominated Person (provided they are a board member).
9. The Board is responsible for ensuring that sufficient work is undertaken by their organisations to inform a view on whether or not they are meeting the tests and standards (e.g. self-assessment work, actioning PRA feedback etc). The Board is also responsible to ensure that this work is fully accounted for when making the attestation and appropriately documented and available for review by Lloyd's when requested.

APPENDIX 5

ADDITIONAL DOCUMENTATION TO SUBMIT TO LLOYD'S

Additional documentation will be required to be submitted to Lloyd's along with the Board Attestation on 12 December 2014. This is to ensure that Lloyd's possesses the most current versions of these documents which form a key component in evidencing to the PRA that the market is meeting the tests and standards for Internal Model approval. The Board approved documents we require are:

- Model Change Policy
- Model Scope Policy
- Validation Policy
- Data Management Policy