

LLOYD'S

DOCUMENTATION & FINAL APPLICATION PACK WORKSHOP

19 & 20 July 2011

Agenda

- Introduction
- Final Application Pack (FAP)

Table discussions on FAP

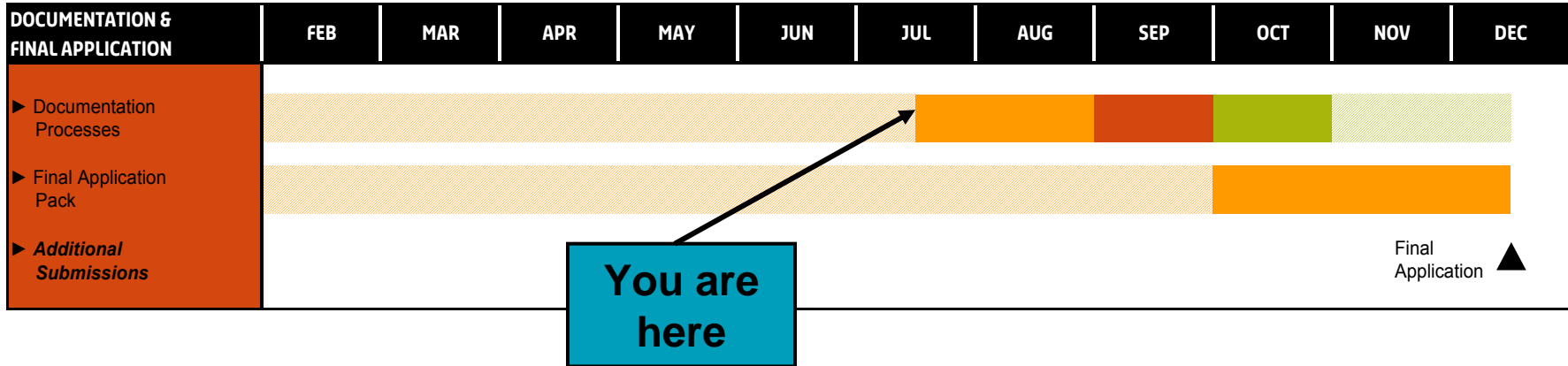
- Documentation (Article 125)

Table discussions on Documentation

- Round up & questions
- Next steps & feedback

INTRODUCTION

Documentation & Final Application workstream



Purpose

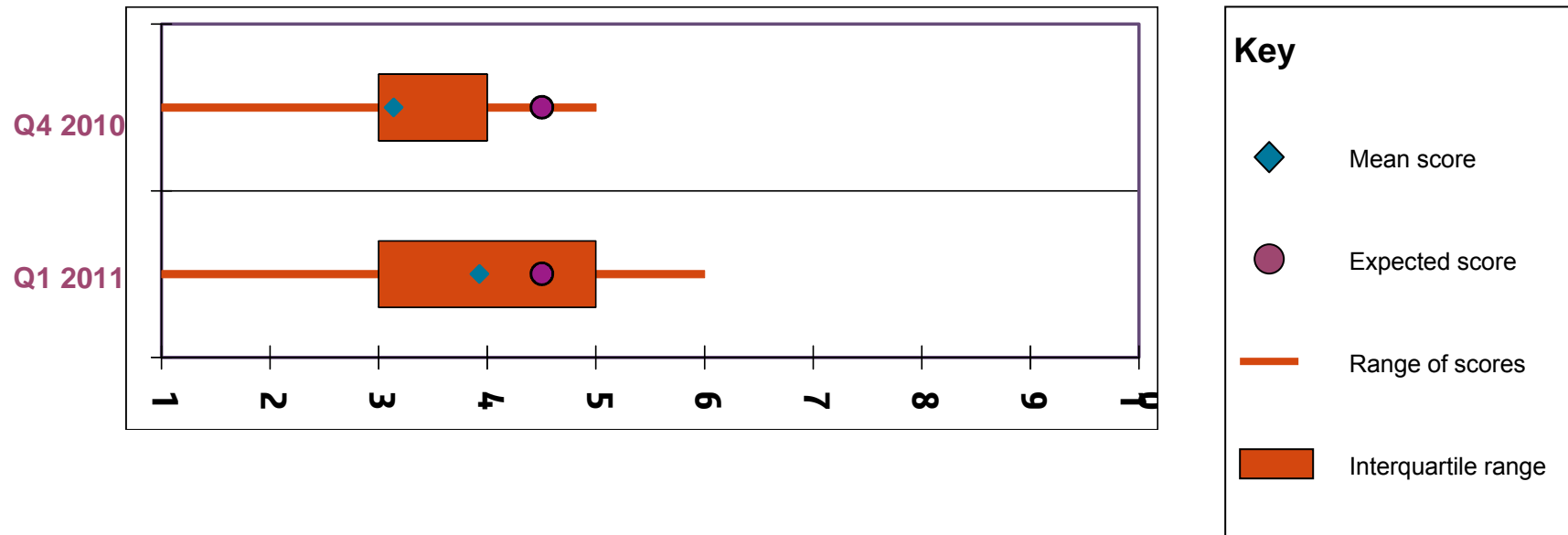
- Address article 125 – Documentation standards
- To ensure that agents have sufficient documentary evidence of Solvency II compliance in place and can demonstrate to Lloyd’s that model meets required standards

Key deliverable

- Final “application pack” by 16 December – interim evidence template
- Supported by documentation submissions across all other workstreams
 - today will cover principles as technical content covered in other sessions

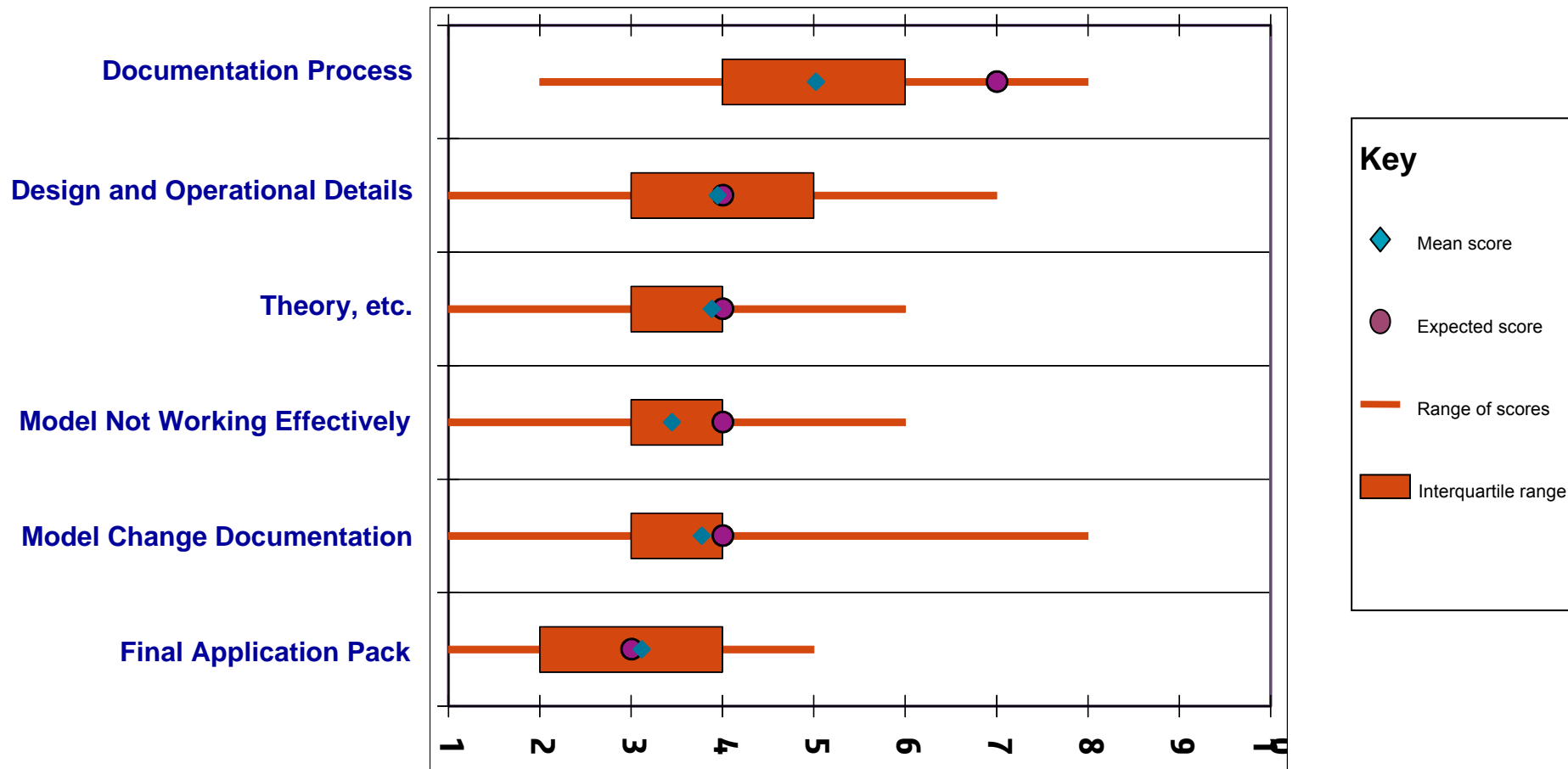
Shift in self assessed scores during Q1 2011...

Documentation and Final Application Agent self assessment scores



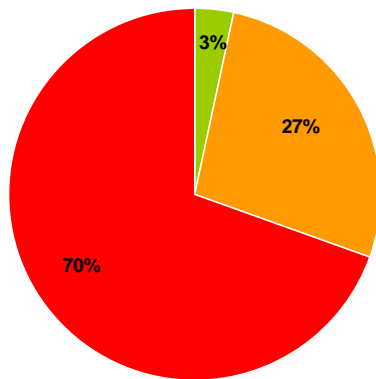
...with wide range of individual scores

Agent self assessment scores as at Q1 2011

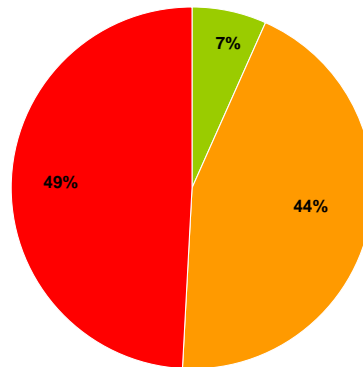


Evidence templates are key to FAP ...

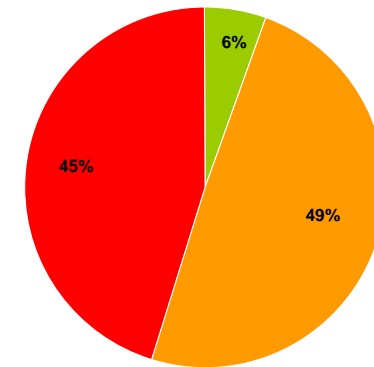
**MODEL VALIDATION
ET RATINGS (END APRIL SUB)**



**INTERNAL MODEL SCR
ET RATINGS (END MAY SUB)**



**TPS & SF SCR
ET RATINGS (END MAY SUB)
(INDICATIVE)**



- Key component - explaining how requirements have been met
- Expectation is that these will continue to develop and improve through 2011

... and some agents are even beginning to like them!

- Useful checklist to ensure all requirements are covered and avoid gaps
- Identify areas for future improvement
- Tool to help explain to board/ wider business how requirements are being met and how things may change when Solvency II is BAU
- Help define roles and responsibilities going forward
- Assist with structuring and indexing of supporting documentation

- Could also be maintained to demonstrate ongoing compliance once Solvency II is live

FINAL APPLICATION PACK (FAP)

Agents must evidence that the core requirements for internal models are met

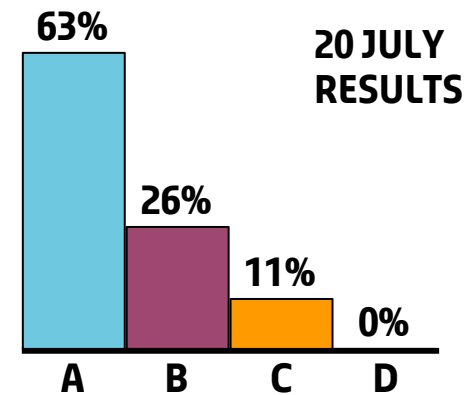
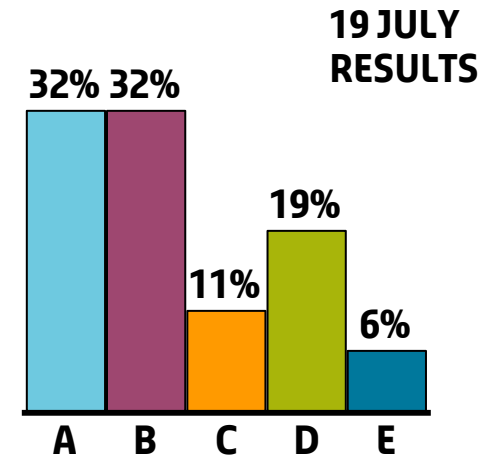
- Article 101 – the model must be able to calculate a Solvency Capital Requirement (SCR)
 - **Action – deliver SCR by October 2011**
- Article 112(5) – there are adequate systems in place for identifying, measuring, managing and reporting risk
 - **Action – deliver ORSA by 16 December 2011**
- Articles 120-126 – the model meets the tests and standards on use, statistical quality, profit & loss attribution, calibration, validation, documentation and external models & data
 - **Action – evidence that standards are being met throughout process and deliver ‘application pack’ by 16 December 2011**

FAP – Aims and Objectives

- CEIOPS DOC-28/09 (formerly CP37) sets out the procedure for internal model applications
- Lloyd's has agreed with the FSA that each agent must submit an application for model authorisation
 - in line with E-N process for firms – but not the same
- Lloyds and agents will need to demonstrate that all relevant Solvency II standards have been addressed and met ahead of implementation
 - present true status of Solvency II compliance and properly represent all evidence available
 - supported by Lloyd's own summary of review work

What do you think of the draft FAP guidance issued by Lloyd's?

- A. Provides sufficient detail and guidance to allow us to develop our pack and we like the mandatory format and templates
- B. Provides sufficient detail and guidance to allow us to develop our pack but we don't like the mandatory format and templates
- C. Further information needed on exactly what should be included
- D. Not useful or informative



FAP - a set of documents which taken together will support the application

Does NOT

- Drive Lloyd's decision on model authorisation on its own
- Contain all available evidence from each agent

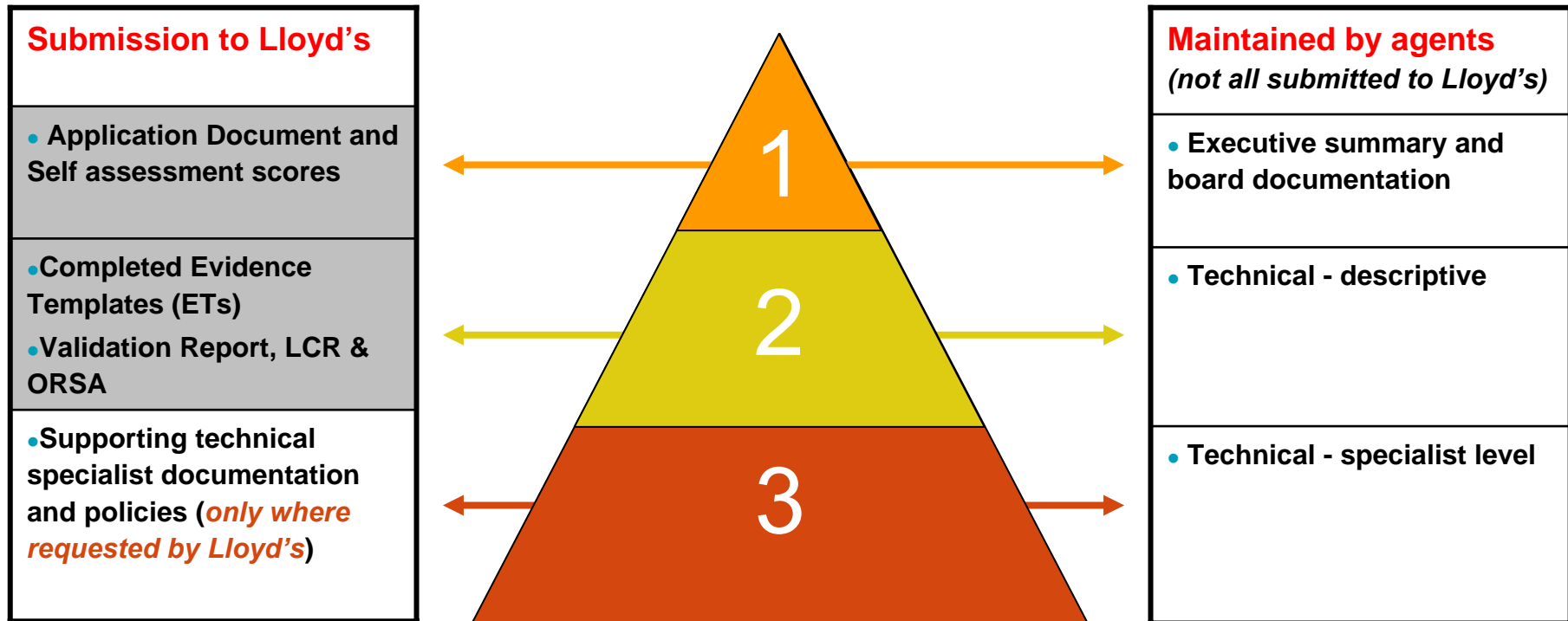
Does

- Refer to all relevant evidence - processes, systems, people and documentation
- Need to be completed by agents but will be supported by a summary of Lloyd's work when presented to the FSA
- Require full managing agent board approval
- Need to be consistent across all elements and accurately reflect status of compliance with Solvency II requirements

Board responsibilities and timings

- Board should provide positive affirmation of current status of Solvency II compliance
- Fully expected that agents will have some gaps against requirements on submission of the FAP in December **BUT** there should not be material gaps remaining
 - needs to include details of further work required and associated timescales
- Confirmation that no material facts or details relevant to the application have been excluded
- Boards will need to work back from 16 December submission date
 - ensure board meetings and sub committee meeting dates established to meet deadline and sign off on “current” position

FAP submission will focus on first two tiers of documentation (but won't include all of it)



Contents of the FAP

Application document

Formal application to Lloyd's to use the model for calculation of regulatory and member level capital requirements confirming status of compliance with all relevant Solvency II requirements – supported by other FAP documents

Self assessment scores

Up to date set of self assessment scores which accurately represent the progress made at the point of application

Evidence templates

Complete set of evidence templates which summarise how requirements have been met and identify the supporting documentation, processes, systems and people to evidence Solvency II compliance

Validation Report

“Final” Validation Report demonstrating that the internal model is fit for purpose

ORSA

Own risk and solvency assessment for the syndicate. Agents need to demonstrate that the process aligns risks with solvency requirements

Lloyd's Capital Return

Numerical output from an agent's internal model to demonstrate calculation of the SCR

Application document

Tier 1 document – Mandatory template for all agents

- Section 1 – statement of board responsibilities
 - sets out minimum level of sign off required by the board
- Section 2 – application for internal model authorisation and overall confirmation
 - formal request for internal model authorisation and confirmation of criteria by the board
 - summary of all documents included, explanation of assurance process for sign off (and ongoing compliance) and high level summary status of all workstreams
- Section 3 – 9 – individual workstream templates
 - Confirmations against required tests and standards for each area
 - Check list for any mandatory documents required under EIOPA measures
 - Details of any exceptions and/or failures with development plan and timetable

Self assessment scores

Tier 1 document – same basis as quarterly submissions

- FAP should show consistency across all components when reporting progress
 - i.e. scoring should be consistent with evidence templates and consistent with exceptions and/or failures recorded in application document
- Scores are expected to change between Q3 and point of application (16 December)
- Part of sign off and assurance process should include an update on scores

Evidence templates

Tier 2 documents

- Need to stand alone as an explanation of how requirements have been met
 - complete coverage for each element required
- Concise summary of evidence and rationale for why it demonstrates compliance
- Provide link between the application document and the detailed underlying evidence
- Staggered submissions and feedback throughout the year should ensure these are substantially complete and will meet Lloyd's requirements
 - effort now will ease the preparation and review burden at point of application

Remaining contents of FAP

Validation Report

Guidance on required contents and scope issued - available on [loyds.com](https://www.loyds.com)

ORSA

Guidance due to be published by Lloyd's on 29 July

Lloyd's Capital Return

LCR template available via [loyds.com](https://www.loyds.com) – FAP should be based on 31 October submission (unless subsequently resubmitted)

**GROUP
DISCUSSIONS
ON FAP**

We would really like to get your feedback and views before guidance is finalised

Please discuss on your tables and agree:

1. What is the thing you like most about the FAP guidance
2. What is the thing you like least about the FAP guidance
3. Do you think we have missed or misinterpreted anything?
4. What do you think will be the biggest challenge in preparing the FAP?

Each table has sheets to complete – agree as a table which points you want to feedback on and we will collate and playback at end of workshop

Hand in sheets if you would like to make other points or email your feedback to solvency2@lloyds.com by 29 July

DOCUMENTATION

Documentation requirements increase significantly under Solvency II

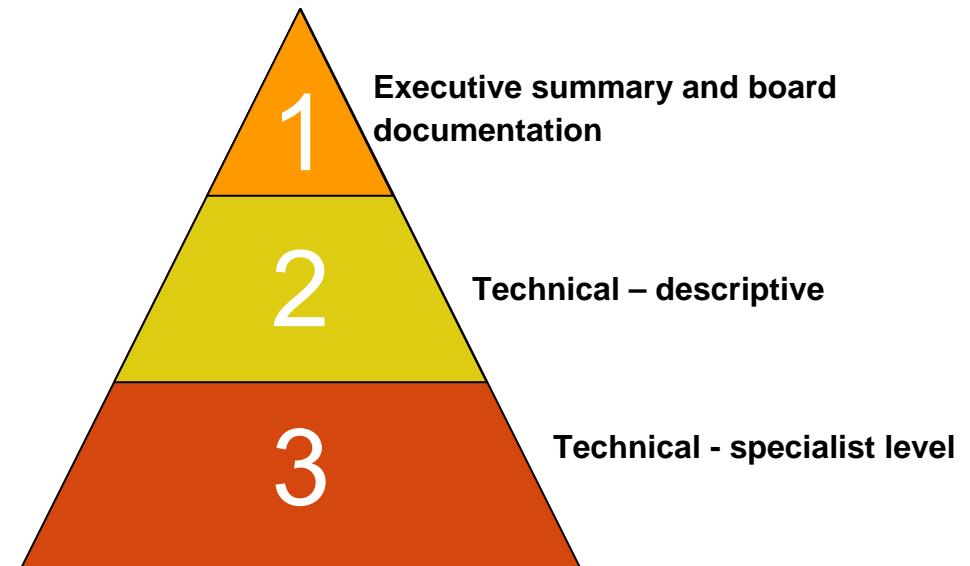
- Article 125 and supporting Level 2 measures set out requirements
- Latest draft level 2 strengthens focus in some areas but principles remain unchanged
 - *The documentation of the internal model in accordance with Article 125 of Directive 2009/138/EC shall be sufficient to ensure that any independent knowledgeable third party would be able to understand the design and operational details of the internal model and form a sound judgement as to its compliance with Articles 101, 112, 120 to 124 and 126 of Directive 2009/138/EC.*
 - *The documentation shall be **appropriately structured, detailed and complete** and shall be kept up to date. **Outputs of the internal model shall in principle be reproducible using the internal model documentation and all of the inputs** into the internal model.*

Proposed Level 2 specifies minimum content

- Inventory (or index) is required
- Specific documents identified as mandatory (*but not exhaustive list*) :
 - *Model change policy, Data directory, Data policy & Validation policy*
- Documentation must also specifically cover:
 - *policies, controls and procedures for the management of the internal model, including assigned responsibilities*
 - *a description of the information technology used in the internal model, including any contingency plans relating to the information technology used;*
 - *all relevant assumptions referred to in Article TSIM9(2) and their justification and the explanation of the methodology used to derive assumptions*
 - *the qualitative and quantitative indicators for the coverage of risks*
 - *the risk-mitigation techniques that are taken into account in the internal model*
 - *the future management actions taken into account in the internal model*
 - *the specifications for the profit and loss attribution*
 - *the role in the internal model of external models and external data*

A crucial tool in demonstrating understanding and use of the model

- Agents should consider granularity when drafting documentation
- Differing levels of understanding expected
- Clear indexing and storage is also key
 - list all relevant documents and ownership
 - storing electronically will aid access and updating/version control



Most agents are using documentation storage systems

- Aids governance and versioning control of documentation
- Does not on its own mean you meet requirements but ...
 - ...easier to demonstrate controls than traditional drive/folder structure
- Systems (eg SharePoint) are a platform only and need to be tailored to specific requirements, e.g.:
 - libraries, folder structures and metadata
 - major and minor versions
 - security and permissions
 - back up and disaster recovery
- Documentation systems are part of the “evidence”
 - remote access and/or walkthroughs will help demonstration

Documentation is not just about meeting test for model authorisation

- System and structure needs to work on an ongoing basis
 - should not be just a distinct project with an end date
- Agree scope of “documentation” and system
- Consider how to meet and demonstrate ongoing compliance with Solvency II
 - Consider business needs as well as regulatory
- Ownership - roles and responsibilities defined
- Regular cycle of review and monitoring

What have our documentation reviews to date highlighted?

- Documents often appear to be written from pure regulatory standpoint
 - can be generic and not relevant to individual business
 - should be a value adding business tool
- Some repeat guidance but lack business interpretation
 - set out requirements but not process of how they are actually met
- No tiering or differentiation between potential audiences
- These do not apply across the board - or always even across an individual agent
 - some submissions are high quality and clearly set out processes and business specific details

What should you be aiming for when producing documentation?

- Structured
- Tailored
- Complete
- Current
- Clear
- Consistent
- Cohesive
- Useful
- Use common sense principles and proportionality!

GROUP DISCUSSIONS ON DOCUMENTATION

Look at the documents you have on the table and consider the following :

- Is there a “takeaway” you could apply to your Solvency II documentation ?
 - Can you identify one good feature - a "top tip" for producing documentation?
 - Can you identify one bad feature - a "pitfall" to avoid ? Structured
- How do they meet the criteria:
 - Tailored
 - Complete
 - Current
 - Clear
 - Useful ?

Links to documents used for discussion:

- Document 1

http://www.ikea.com/ms/en_US/customer_service/assembly_instructions.html

- Document 2

- <http://www.nlgn.org.uk/public/wp-content/uploads/Capital-Momentum.pdf>

- Document 3

- <http://www.apple.com/legal/itunes/uk/terms.html#GIFTS>

- Document 4

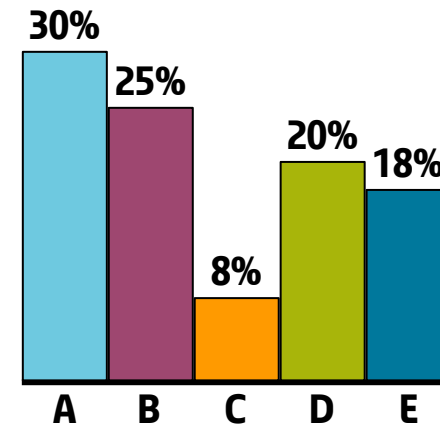
<https://kindle.s3.amazonaws.com/Kindle%20User's%20Guide,%204A%20Ed.%20-%20English.pdf>

Documentation review findings

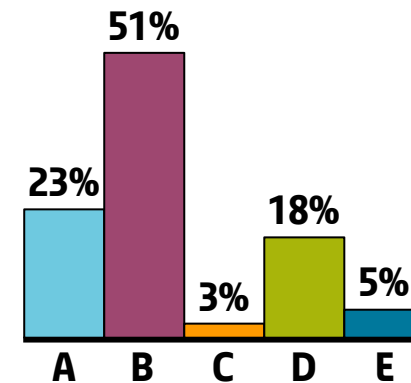
Which document did you think met the most criteria (Structured, Tailored, Complete, Current, Clear and Useful)

- A. Document 1
- B. Document 2
- C. Document 3
- D. Document 4
- E. More than one document

19 JULY RESULTS



20 JULY RESULTS



ROUNDUP AND QUESTIONS

FAP discussion feedback

What is the thing you like most about the FAP guidance?

- **Useful structure and emphasis**
- **Prescriptive templates useful**
- **Builds on work already done/existing templates**
- **Spreads work throughout the year**
- **Clear and good level of detail with consistent format**
- **Focused the attention of the Board/Senior Management and clarifies responsibilities**
- **No surprises**
- **Is a summary so documents do not need to be attached**
- **Lloyd's have listened**
- **Available in good time**
- **At managing agent level**

FAP discussion feedback

What is the thing you like least about the FAP guidance

- **Ambitious to expect agents to receive feedback from the Board and include it in time for complete sign off on 16th December**
- **Statement on Board sign off is very broad and requires too many signatures**
- **“Quality assurance” is a new term**
- **Number of identified exceptions/failures doesn't give an indication of materiality - quantitative vs. qualitative view on exceptions?**
- **Focus on scores/ratings rather than what is adequate**
- **Prescribed forms may not guarantee embedding**
- **Guidance not yet complete**
- **Repetitive in places**
- **Slight overlap with other documents e.g.. Validation Report, evidence templates**
- **Lloyd's requires agents to revisit evidence templates**
- **Different to FSA process and wider scope**

FAP discussion feedback

Do you think we have missed or misinterpreted anything?

- Approach is different to the FSA - how does this fit with FSA timetable and approval?
- What are the differences between exceptions and failures and what are the criteria used to judge passes and failures and would Lloyd's expect to see any failures?
- What happens in the case of material gaps?
- What does pass or fail look like and what does acceptance mean?
- What will Lloyd's feedback be – minded to approve?
- Dates are well in advance of 1 Jan 2013 Solvency II deadline
- What happens between December 2011 and April 2012?
- Worked examples would be helpful e.g.. document hierarchy, the operating model, exceptions and materiality.
- There are some areas, e.g.. Reporting and Disclosure where there may be slippage – what impact will this have on FAP?
- Clarity on level of sign off on evidence templates to provide guidance on depth of understanding

FAP discussion feedback

What do you think will be the biggest challenge in preparing the FAP?

- Sufficient time for the Board to read and approve the FAP
- Quality assurance
- Responding to feedback from Lloyd's and FSA
- Understanding of Board and sign off process
- Resource impact of E-N and Lloyd's application
- Resources – sheer amount of workload
- Consistency of content and terminology across workstreams and documents
- Timing of ORSA guidance
- Pulling it all together in time
- Review of requirements - and they could change

NEXT STEPS

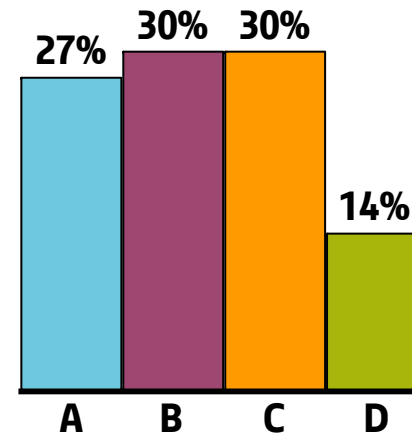
What happens next?

- Slides will be made available on lloyds.com after both workshops
- You can provide feedback on FAP guidance until end July
 - final version will be issued by end August
 - ORSA guidance due end July and Reporting implementation plan guidance due end August
- Evidence template reviews and feedback will continue
- Next workshops on Documentation & Final Application – 3 & 4 October
 - will cover Final Application process and ORSA
- Other upcoming sessions:
 - IMSCR & TPs – now 8 & 23 August
 - Governance, Risk Management & use – now 9 & 24 August
- Finally, before you go, a request for feedback on today's session ...

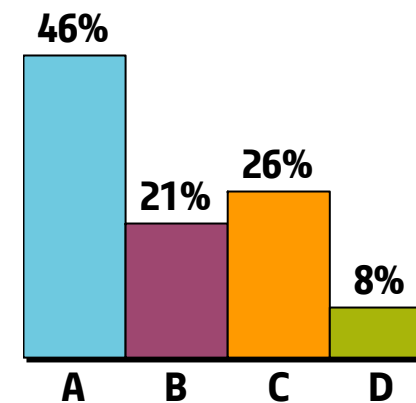
How useful have you found today's session?

- A. Very useful and provided helpful clarification
- B. Useful, but greater technical guidance would have been beneficial
- C. Useful, but greater detail on timing and format of reviews needed
- D. Not very useful

19 JULY RESULTS

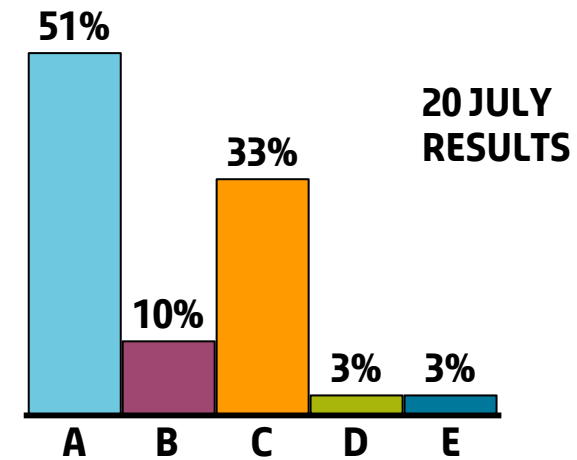
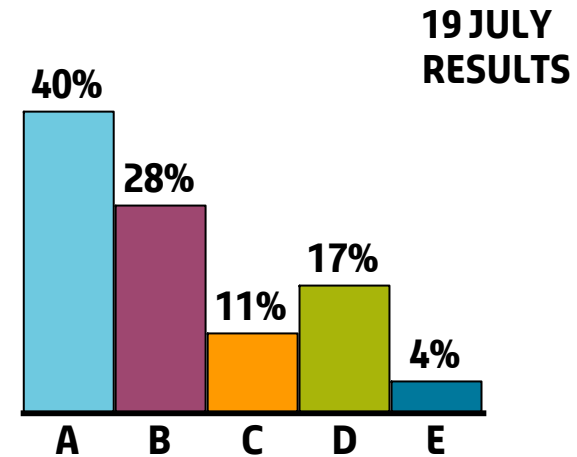


20 JULY RESULTS



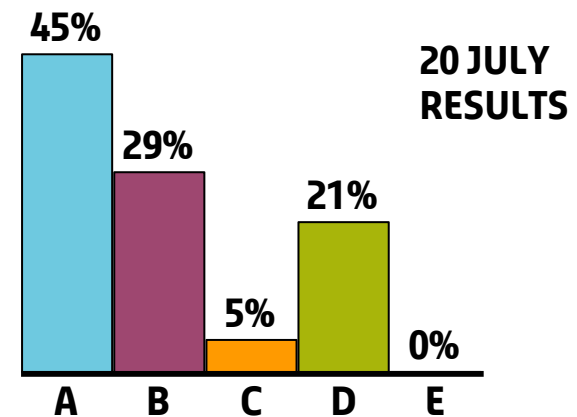
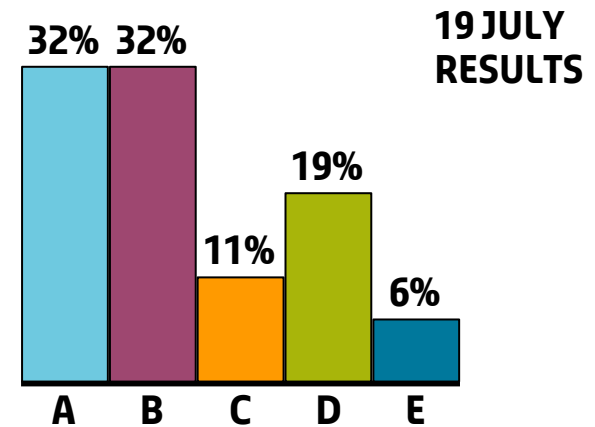
How have you found format of today's workshop?

- A. I liked having 2 discussion sessions and balance was good
- B. I liked having 2 discussion sessions but they should be shorter
- C. I would prefer to have only one table discussion
- D. Would prefer less discussion and more presentation
- E. Other



How have you found the table sessions today?

- A. Discussions were useful and content and material was appropriate
- B. Discussions were useful BUT content and material was not appropriate
- C. Discussions were not useful
- D. I like one discussion but not the other
- E. Other





DOC	Structured	Tailored	Complete	Current	Clear	Useful
1						
2						
3						
4						

FAP discussion feedback – Question1

What is the thing you like most about the FAP guidance?

- **Enter feedback points**

FAP discussion feedback- Question 2

What is the thing you like least about the FAP guidance

- **Enter feedback points**

FAP discussion feedback – Question 3

Do you think we have missed or misinterpreted anything?

- **Enter feedback points**

FAP discussion feedback – Question 4

What do you think will be the biggest challenge in preparing the FAP?

- **Enter feedback points**