

SOLVENCY II MARKET BRIEFING

23 & 24 November 2011

Agenda

- **Highlights since we last met**
- **Lloyd's update**
- **FSA update**
- **Countdown to Final Application**
- **2012 and beyond**
- **Wrap up**
- **Questions?**

Highlights

- Overall Solvency II timetable has become clearer
- Lloyd's internal programme remains on track
- Pace has stepped up on FSA pre IMAP work programme
- Edition 2 of Solvency II Tutorial released
- 2011 syndicate dry run process has met key objectives

No need or desire for change to Lloyd's timetable

- FSA advise insurers to plan for January 2014 Solvency II 'go live'
 - IMAP window extended from March 2012 to summer 2013
- Lloyd's maintaining its implementation timetable
 - Momentum is with us
 - Approach supported by market
 - Submit IMAP on 30 April 2012
- Delay allows more time for remediation work 'at the margin'

Further Corporation progress in Q3 2011...

- **Pillar 1** - Lloyd's Internal Model (LIM) development approaching completion
 - Currently calibrating against syndicate SCRs
- **Pillar 2** - ORSA Policy complete and 2nd pilot ORSA report due at Franchise Board on 12 December
- **Pillar 3** - IT development progressing as final requirements become clearer
- **Independent assurance** - we have been reviewed by an account manager using syndicate workstream criteria and rated as **AMBER** (*on track*)
 - Internal Audit review results awaited

... and FSA review work with Lloyd's and agents accelerating

- Workplan agreed for pre IMAP review
- Intensive on site visits held:
 - Lloyd's catastrophe model (LCM)
 - Data quality
- Upcoming visits
 - LIM – thematic reviews, around 6 sessions from December
 - Syndicate review process – 2 in depth sessions December
- Agent reviews
 - FSA syndicate workplans agreed by end November
 - Considerable interaction to date through model walkthroughs and progress meetings

On-line tutorial has been developed further in response to market request

- Over 3,000 individuals have completed the first tutorial issued in May
- Edition 2 now released
 - Overall module - Directors responsibilities including Final Application Pack (FAP)
 - Module for each of the seven individual syndicate level workstreams
- Targeting board and senior management
- Several agents have made it mandatory with reports on completion
- Completion requirement for Franchise Board members
- Please look if you haven't already ...
 - www.lloyds.com/The-Market/Operating-at-Lloyds/Solvency-II/Information-for-managing-agents/Solvency-II-Online-Tutorial

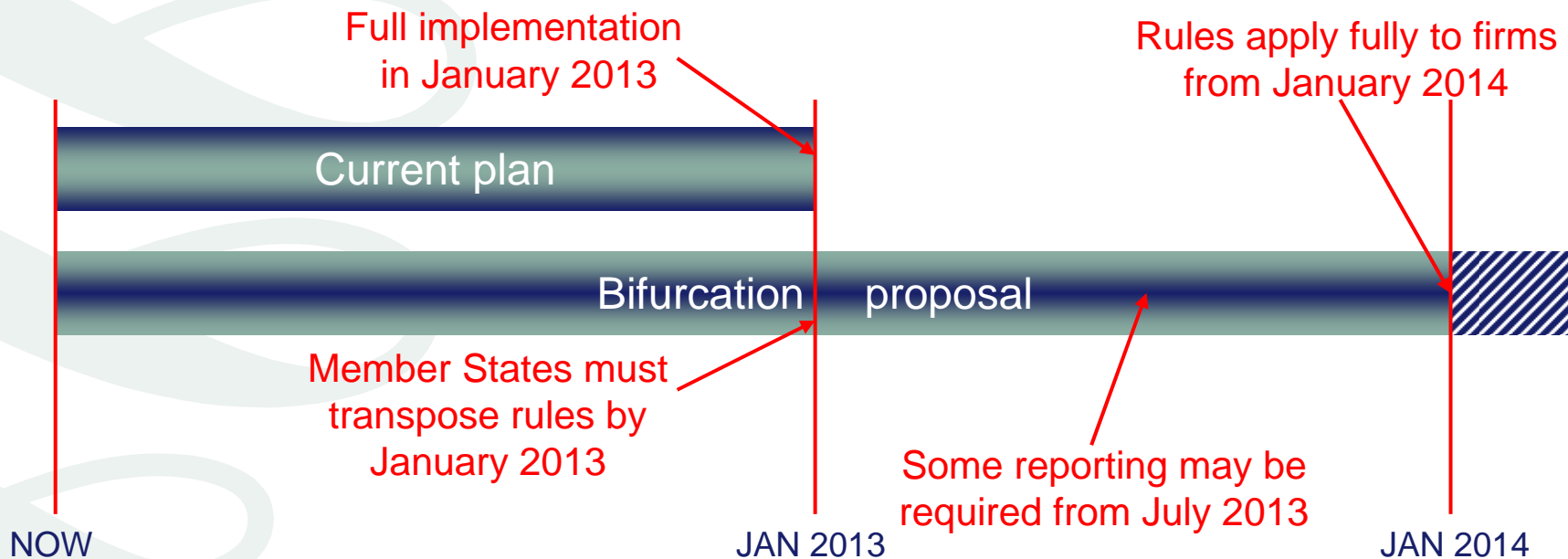
Solvency 2 – FSA update

Graeme Tennyson
London Market Insurance Department

- **Bifurcation**
 - what it means...
 - ...and implications for the Lloyd's market
- **FSA review of the LIM**
- **Areas of focus for syndicate reviews**
 - Use test
 - The risk function
 - Validation

bifurcation

- Proposal in current draft of Omnibus 2 Directive
- Splits implementation dates for national supervisors and firms
- Need to maintain momentum in implementation



bifurcation...what it means



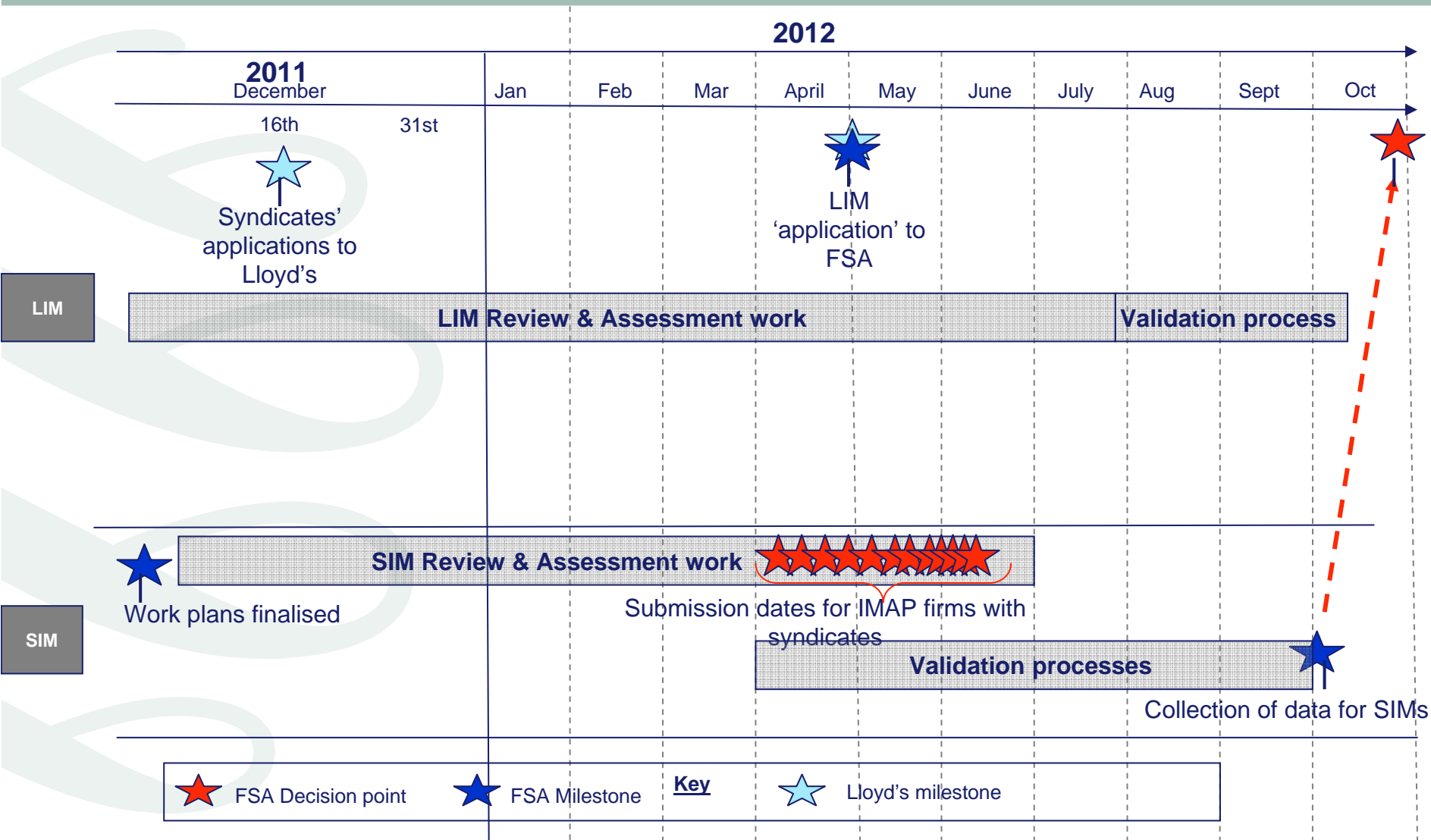
- Pre-application work for internal models will continue but will be blended with application work
- Firms will be given individual application slots that takes into account firm readiness and our resource position
- Pre-application work will be re-planned and for some firms will be delivered later

bifurcation...what it means for the Lloyd's market



- All firms will have a 'landing slot' for submission of their application – this does not affect stand-alone managing agents
- **Lloyd's landing slot will be in April 2012**
- Groups with a managing agent and a UK insurer will have their own FSA landing slot for their model application. This **does not** affect your Lloyd's submission deadline.
- FSA working on a proposal for use of internal models for ICAS purposes in 2013. This will not be a Lloyd's-only solution. Solvency 1 obligations are unaffected.
- There will be an FSA consultation paper covering Lloyd's Solvency 2 policy issues in 2012

review of the LIM



areas of focus

- Use test

- evidence of Board engagement
- engagement at the right level
- NED involvement
- The ORSA

- The risk function

- evidence of embedding
- quantification of risks

- Expert judgement

- criteria for use
- quality of historical data and use of Lloyd's/market data

- Validation

- Stress, scenario, and sensitivity testing

Questions...?

Agenda

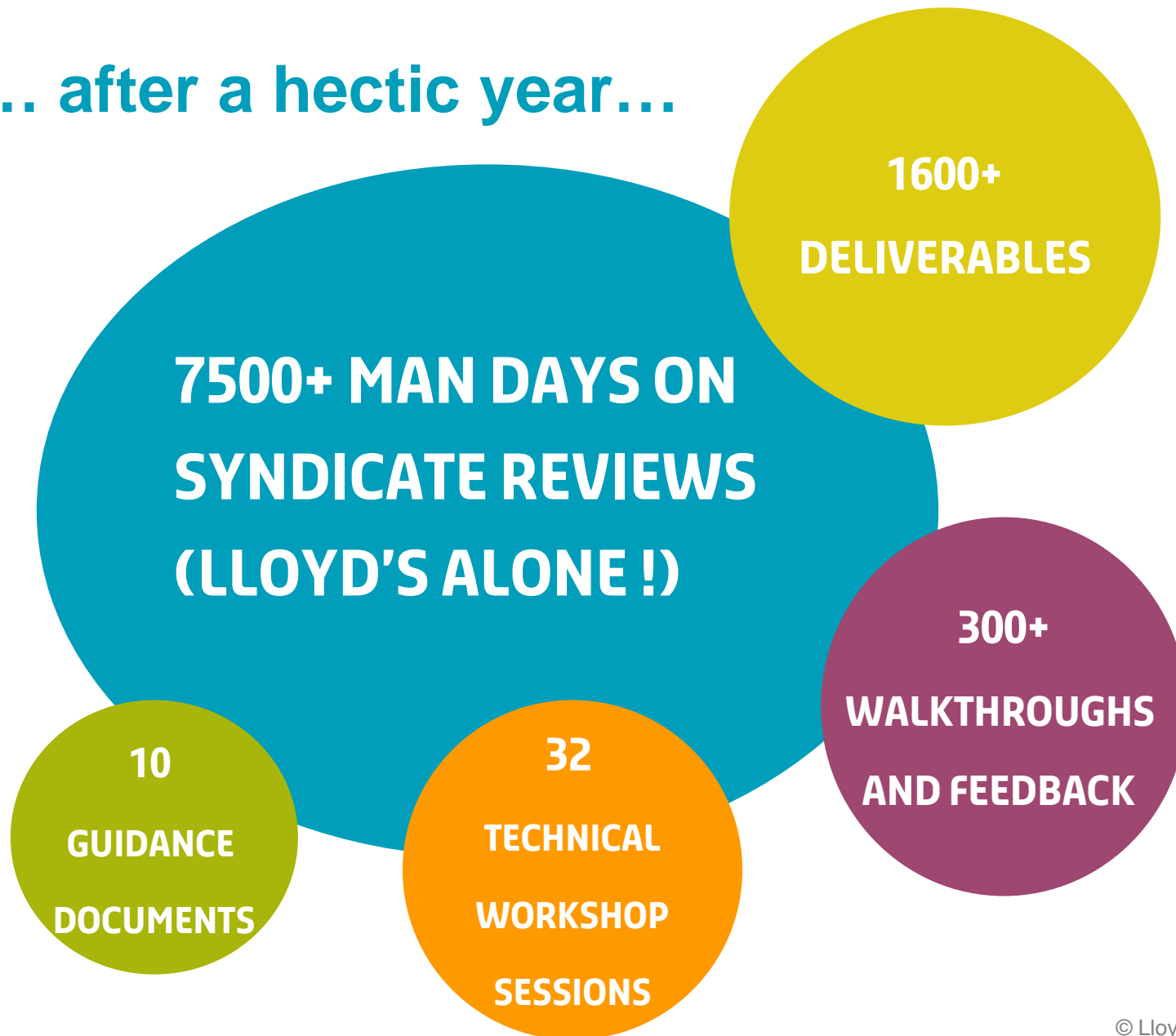
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- **2011 and countdown to Final Application**
- 2012 and beyond
- Wrap up
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2011 dry run process has a big finish...

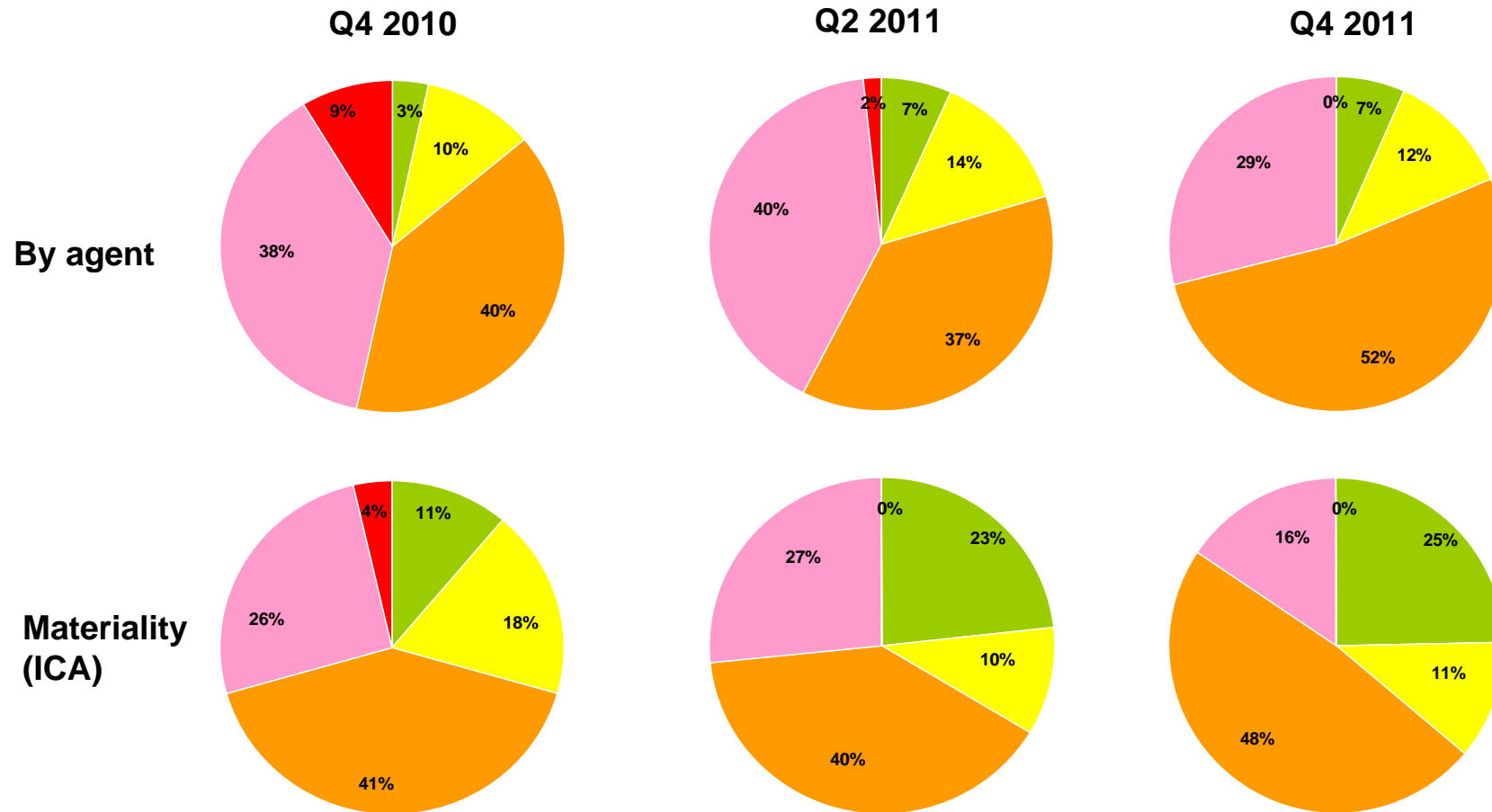
2011	FEBRUARY	MARCH	APRIL	MAY	JUNE	JULY	AUGUST	SEPTEMBER	OCTOBER	NOVEMBER	DECEMBER
Overall	7 and 11 February Workshop February 18 2011 Plan and Guidance	March 4 Q4 2010 Self-assessment scoring sheet March 31 Updated scoring sheets for all elements		May 6 Q1 Self-assessment scoring sheet		July 29 Q2 self-assessment scoring sheet	1 and 2 August Director's Briefing		October 31 Q3 self-assessment scoring sheet	23 and 24 November Director's Briefing	
IMSCR Internal Model SCR	February 18 LCR template	March 4 High-level model questionnaire March 18 High-level model questionnaire	4 and 6 April Workshop	May 27 Evidence template	13 and 17 June Workshop	July 29 Interim SCR 1 submission	8 and 23 August Workshop August 26 Evidence template	September 16 Interim SCR Submission	October 31 Final SCR submission		December 16 Final Evidence template
VBS Valuation and Balance Sheet				May 6 Segmented assets guidance	22 and 23 June Workshop	July 29 Balance Sheet and Segmented assets submission July 29 Evidence template		14 and 15 September Workshop			December 16 Final Evidence template
TPSF Technical Provisions and Standard Formula	February 18 TP template and instructions	March 31 Technical Provisions guidance	4 and 6 April Workshop	May 27 Full year TP submission as at 31/12/10 May 27 Evidence template submission	13 and 17 June Workshop June 30 Templates and instructions	July 29 Standard Formula SCR July 29 Evidence template	8 and 23 August Workshop	September 30 Half year and projected TP submissions September 30 Evidence template		November 30 TPD and GQD submission	December 16 Final Evidence template
MV Model Validation		15 and 16 March Workshop		May 6 Evidence template May 6 Validation Report guidance 9 and 10 May Workshop	June 30 Evidence template	4 and 5 July Workshop	August 26 Evidence template	1 and 2 September Workshop September 30 Draft Validation report			December 16 Final Evidence template December 16 Final Validation Report submission
GRMU Government Risk Management and Use		1 and 3 March Workshop March 31 Evidence template		17 and 18 May Workshop	June 30 Evidence template	July 29 ORSA contents guidance	9 and 24 August Workshop	September 30 Evidence template	3 and 4 October Workshop	7 and 10 November Workshop	December 16 ORSA submission December 16 Final Evidence template
RD Reporting and Disclosure					22 and 23 June Workshop	July 29 Evidence template	August 26 Reporting and Implementation plan guidance	14 and 15 September Workshop	October 31 Evidence template		December 16 Reporting Implementation plan December 16 Final Evidence template
DFA Documentation and Final Application					June 30 Final application pack Guidance	19 and 20 July Workshop's	August 26 Evidence template		3 and 4 October Workshop		December 16 Final application pack December 16 Final Evidence template

KEY □ Workshops □ Key Deliverable □ Lloyd's Publication □ Submission Due

... after a hectic year...



... and the market is better placed now than at any stage



Amber or better = on target for Solvency II compliance

The deadline is fast approaching with 16 FAP days to go!

Application document

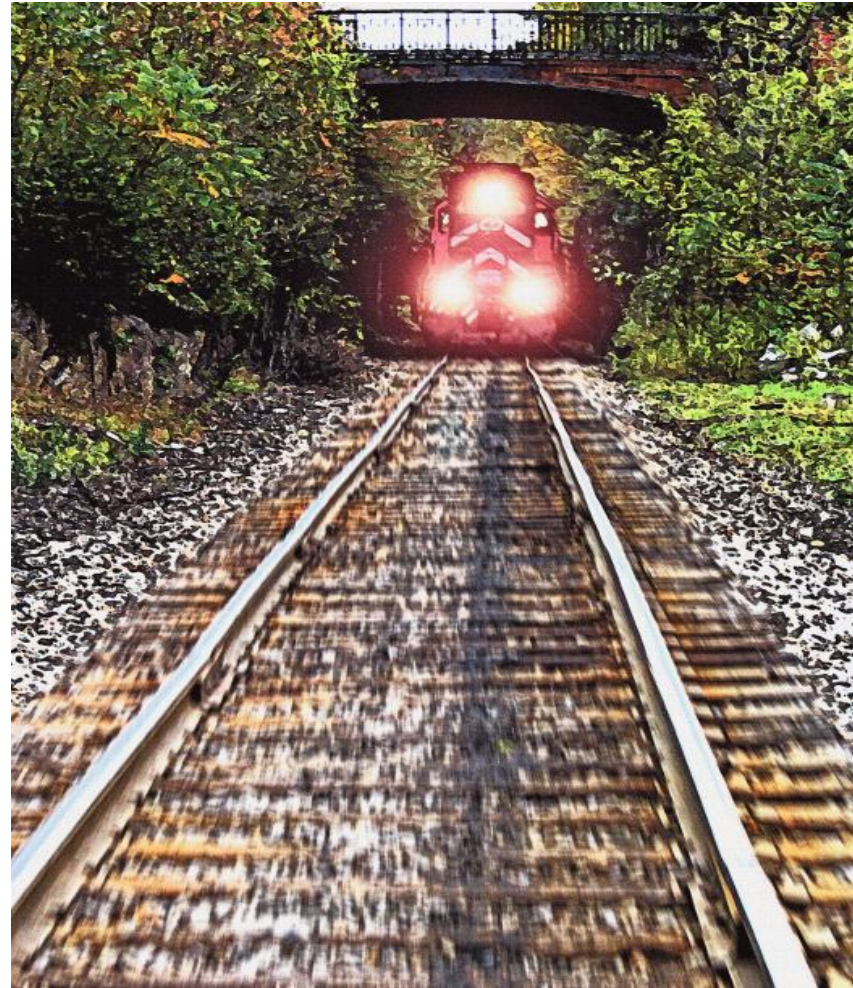
Self assessment scores

Evidence templates

Validation Report

ORSA

Lloyd's Capital Return



A reminder on the aims of the FAP submission and review process

For agents to:

- present the current status against Solvency II test and standards
- capture all evidence available to support this
- set out the work needed and timelines to address any gaps

For Lloyd's to:

- provide clarity to all stakeholders on the market's Solvency II readiness
- arrive at a “conditional” recommendation on model authorisation for each agent
- drive 2012 work thematically and with individual agents based on gaps

FAP must objectively demonstrate status and refer to all evidence available

- Robust assessment and explanation of gaps
 - we expect gaps - focus on what they are and how they will be closed
- Refer to all evidence available (but not to be submitted)
 - this has been a long process - reflect your efforts and work done
- Be consistent across elements and across templates
- Ensure independent assurance can be relied upon for FAP sign off
- Check on latest feedback and ratings provided by Lloyd's

Board sign off is a “positive affirmation”

FAP COMPONENT	FULL BOARD SIGN OFF REQUIRED	FULL BOARD AWARENESS REQUIRED
Application document	✓	✓
Self Assessment Scores	✗	✓
Evidence templates	✗	✓
Validation Report	✗	✓
ORSA	✗	✓
LCR	✓	✓

- Application must include all components and is subject to full board approval

FAP review will focus on statements made and level of gaps declared

- Is the quality of FAP documents submitted of an acceptable level?
- Are we confident that the status set out in the FAP is realistic and does it correlate with our view of agent readiness based on review work already completed?
- Has the agent sufficiently met the tests and standards on both qualitative and quantitative submissions?
- Has the agent clearly identified all gaps and set out realistic plans and timings to address?
- Is the number of gaps/material gaps excessive ?
- ***Targeting material gaps closed by 31 March and remainder by 30 June 2012***

Any views can only be “conditional” at this stage

- This is still part of dry run and will not be the last assessment
- Outcome of FAP review **by 31 March** will be
 - Lloyd's considers that the syndicate model will meet the Solvency II tests and standards provided that...
 - or**
 - Lloyd's considers that the syndicate model will not meet the Solvency II tests and standards unless...
- We will reject any FAP which is not complete and/or is of insufficient quality to allow any conclusion to be reached
 - *By 31 January at latest with resubmission required by 28 February*
- Subject to FSA review and oversight

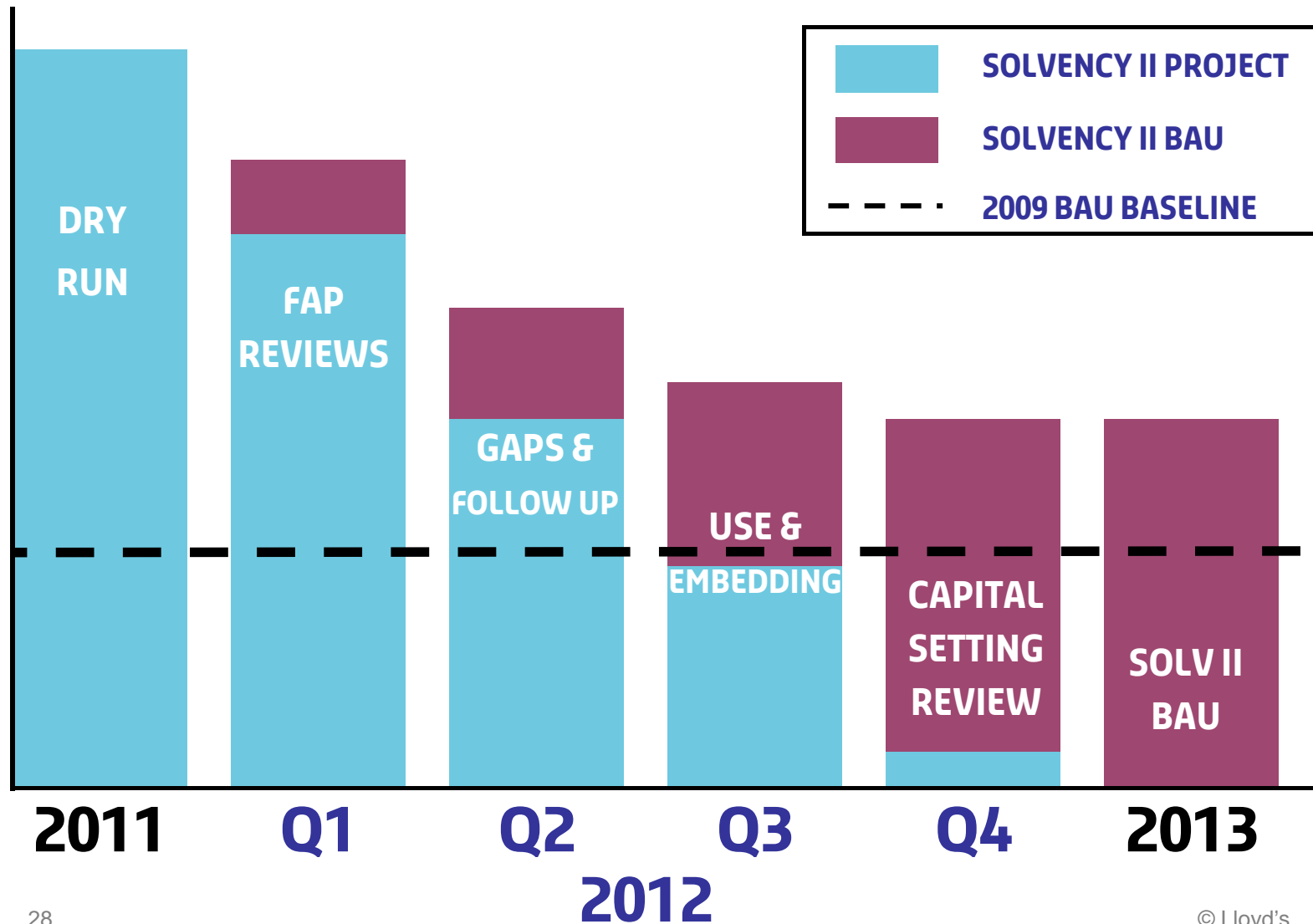
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2012 work will be driven by outcome of FAP reviews

- Agents should continue to work on closing gaps during Q1 and Q2 2012
 - Lloyds will ask for regular updates on status of gaps and progress being made
- 2012 will look to begin transition into BAU ahead of 2013 capital setting
 - some market wide quantitative deliverables supported by thematic review work
 - workshops and briefings will continue but reduce in number
- Draft 2012 plan to be issued next week for market consultation

End goal for 2012 is sustainable BAU



Aim for pragmatic capital setting for 2013...

- Julian Adams, FSA industry briefing, 3 November 2011:
 - *“Our intention is to explore with firms possible ways of avoiding the costs associated with the dual running of an ICAS and Solvency II model, while continuing to secure a degree of policyholder protection, which we regard as appropriate and prudent. This could include investigating whether, where we are minded to approve a firm’s model, such a model could be used to demonstrate satisfaction of some or all of a firm’s ICAS requirements.”*
- If we are to use SCR models for capital setting for 2013 yoa:
 - Lloyd’s IMAP must be robust
 - Agents must largely meet Solvency II tests and standards in Q3 2012

... and begin preparation for BAU

Agents

- Use test and embedding should be key focus
- Solvency II policies and procedures becoming operational
- Pillar 3 dry run

Lloyds

- Investment Governance minimum standards issued
- Reserving minimum standards due early 2012
- Solvency II BAU review process to be agreed in Q1 2012

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Make the last 3 weeks count to get us all over the line

- **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
- **FAP** - be clear
 - Do you fully understand what you are being asked to sign off?
 - Does it tell a clear, consistent and convincing story on gaps?
 - Does it properly reflect status of your programme at this point?

Agenda

- Highlights since we last met (LS)
- Lloyd's update (LS)
- FSA update (GT)
- Countdown to Final Application (LH)
- 2012 and beyond (LH then LS)
- Wrap up (LS)
- **Questions**

