

# **SOLVENCY II 2011 PLANNING WORKSHOPS**

7 & 11 February 2011

# Agenda

- Introduction & Agenda
- 2010 Wrap up and 2011 approach
- Workstreams and key deliverables
- The need to deliver

## *Followed by group discussions*

- Round up and questions
- Summary
- FSA

# **INTRODUCTION**

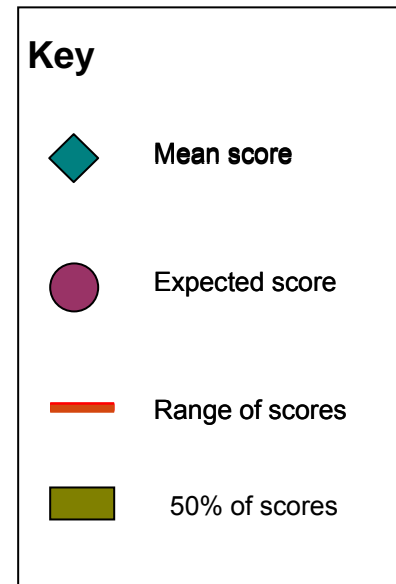
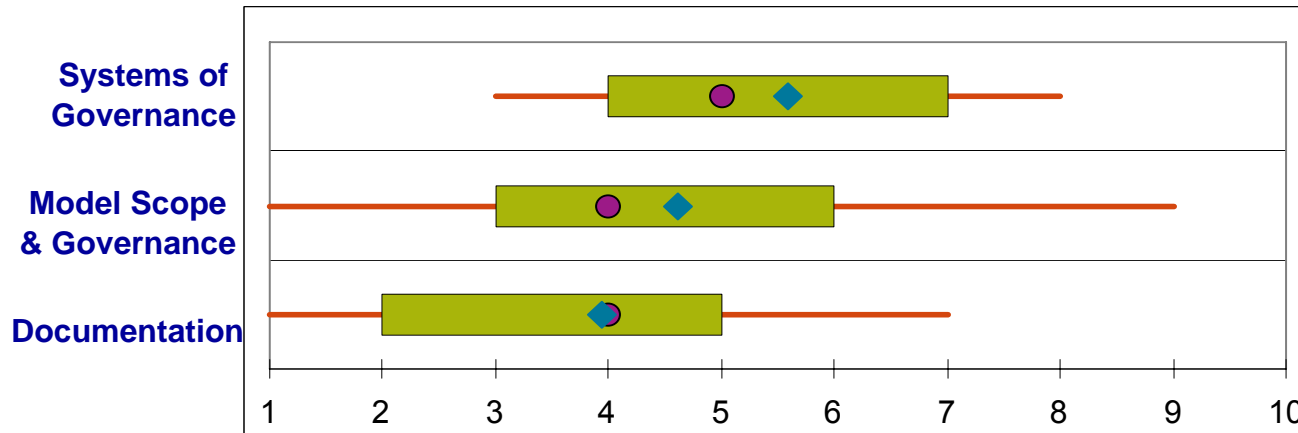
# Purpose of today's session

- Present high level plan and guidance issued on 2 February
- Obtain market views via facilitated group discussions
  - round up and play back issues and questions
- Answer questions where possible
  - take away any we can't answer today
- Use opportunity to get market challenge and views before we finalise

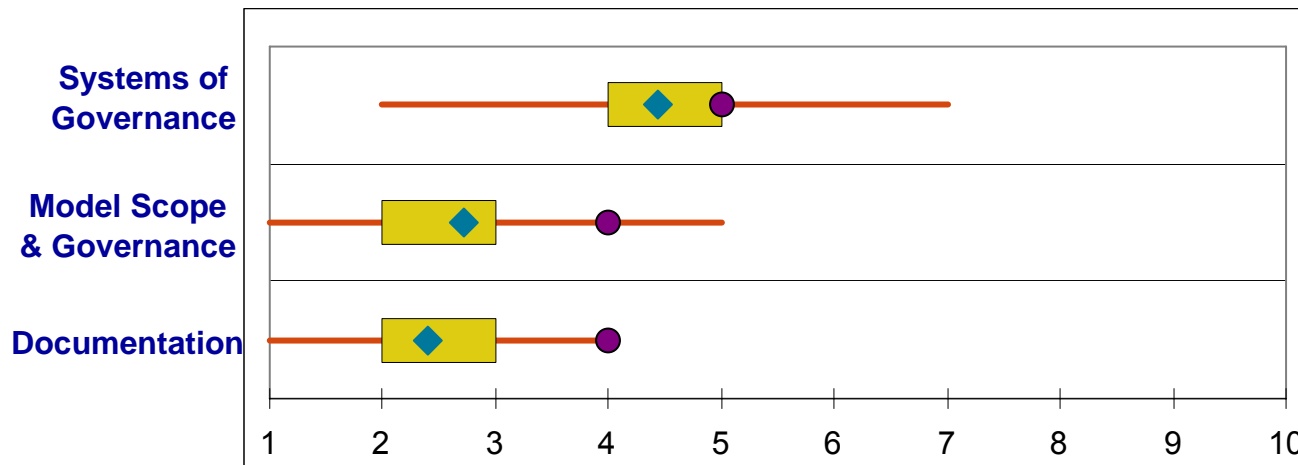
# **2010 WRAP UP**

# Stage 1 scores saw big difference in views ...

## Agent self assessment (June 2010)

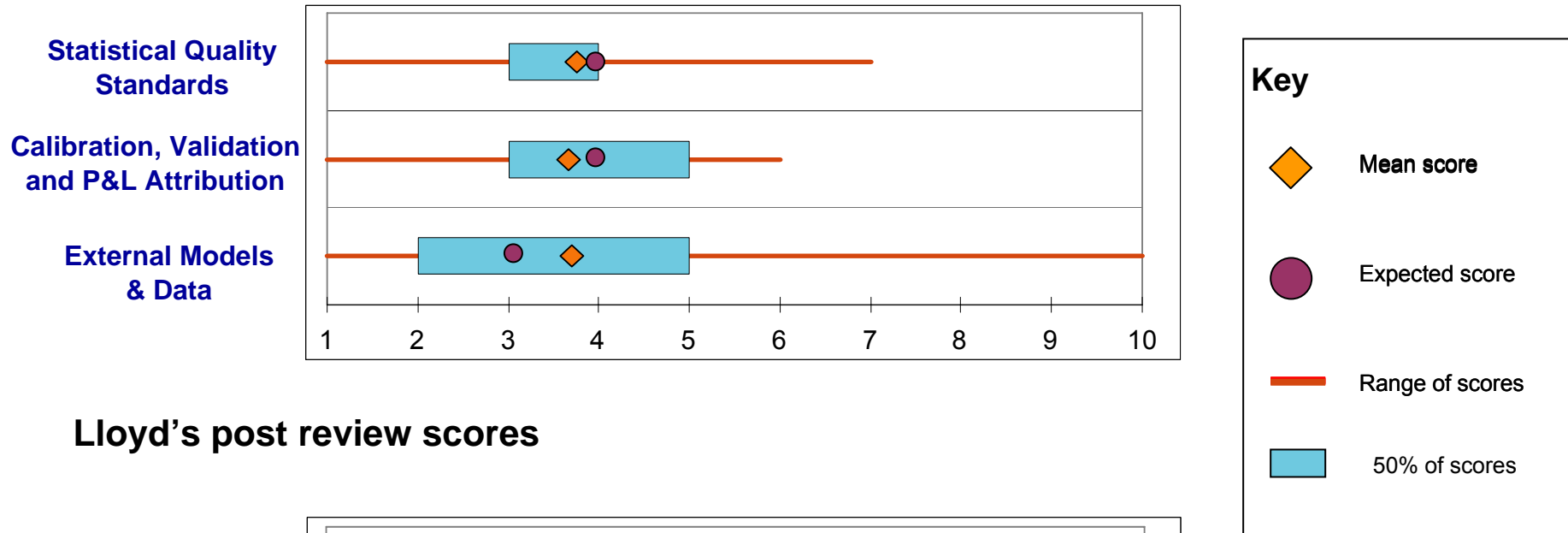


## Lloyd's post review scores (September 2010)

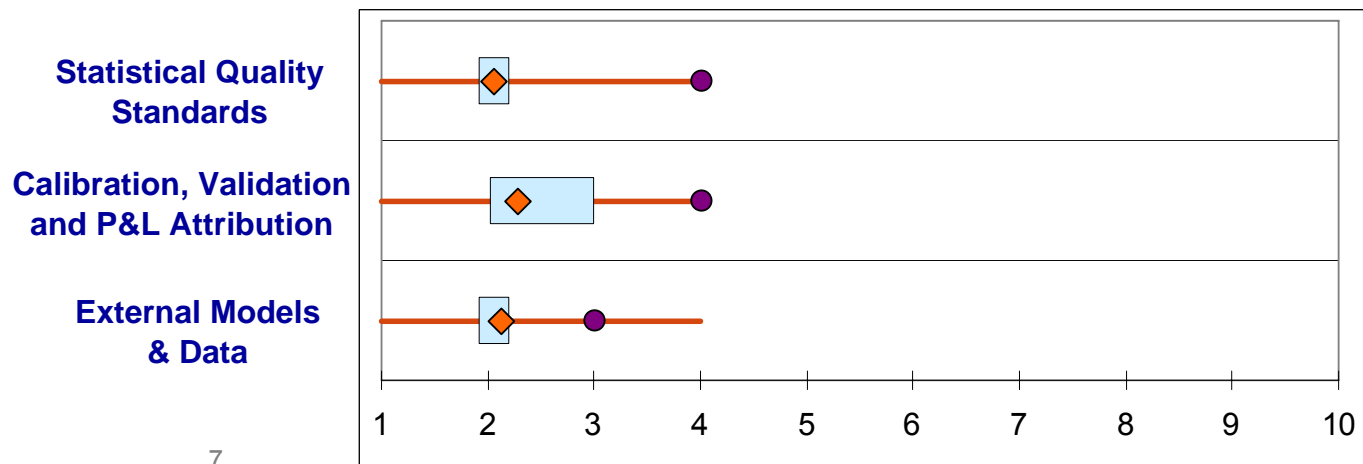


# ... but Stage 2 saw them move closer ...

## Agent self assessment

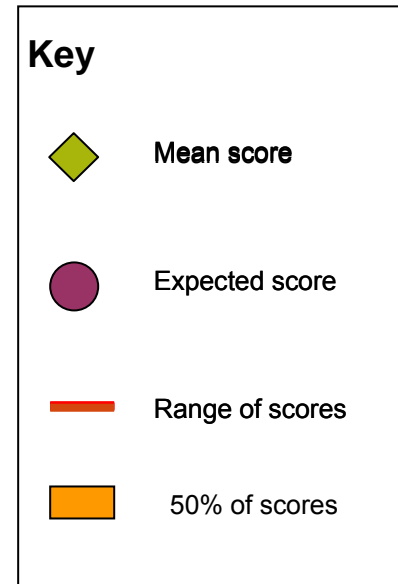
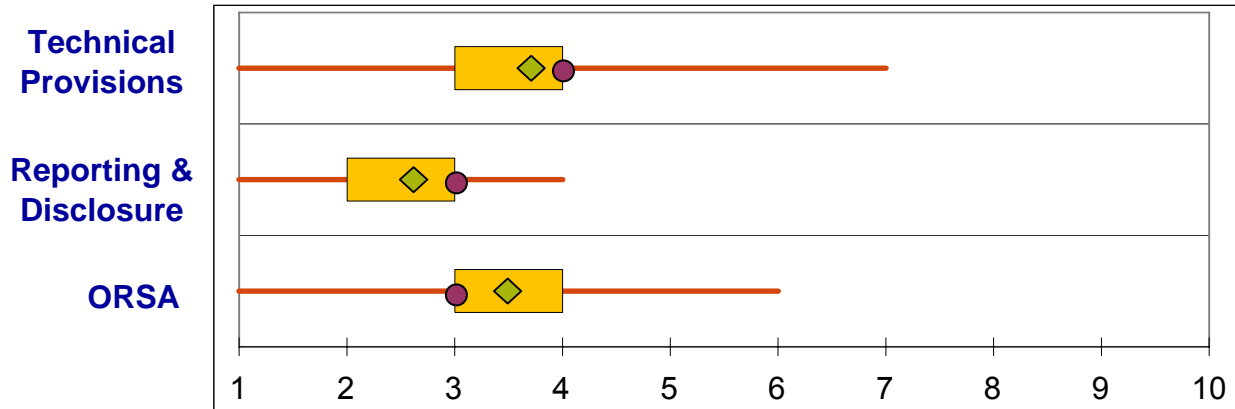


## Lloyd's post review scores

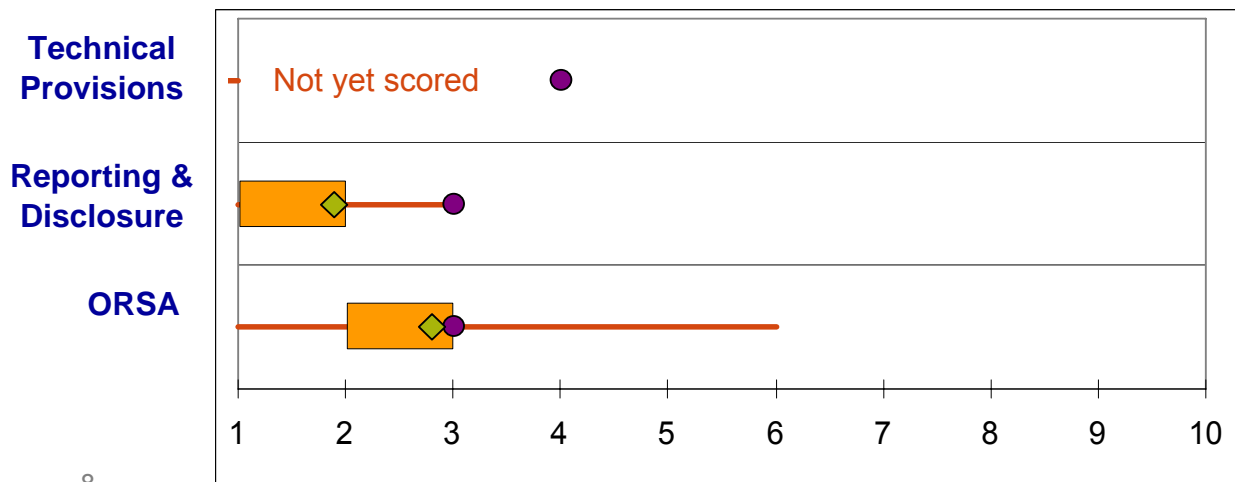


# ... and Stage 3 saw us almost agreeing!

## Agent self assessment



## Lloyd's post review scores





## Wrap up on 2010

- Final scores on 2010 submissions being communicated to agents
  - all agreed with exception of Technical Provisions – February
- Detailed feedback ongoing through agent meetings as scheduled
- Stage 3 scoring sheets issued 7 February
  
- Whilst 2011 process will leverage on what we have achieved in 2010 the approach will change

## 2010 gave us a good starting point...

- Dedicated 'account manager' system working well
- Detailed guidance provided in 2010 still stands
- Starting point for self assessments in 2011 agreed
- Feedback given to each agent on gaps/actions required
- Scoring sheets issued setting out expectations through to full implementation
- We are sticking with 2010 dry run elements and adding quantitative elements
  - FSA's 'E-N' self-assessment process recognised

## ... but 2011 needs to deliver an end product

- Lloyd's review will be more risk based
  - we can't look at everything
- More time dedicated to on-site reviews and walkthroughs
- Greater onus will be placed on agents to demonstrate why and how they meet requirements
  - score sheets simplified
  - evidence templates with mapping and rationale
- Project progress as well as evidence
  - monthly meetings will remain
  - provide what the Board / senior management sees to us

# Support will continue via guidance and workshops

- No immediate change to 2010 detailed dry run guidance
  - additional material issued as appropriate
  - linked to workshops
- Provisional schedule of workshops published
  - used to scope reviews as well as provide highlights and benchmarking information
  - tailored to specific audiences
  - formats may vary
- Significant workload for Lloyd's
  - can't repeat run throughs individually

**WORKSTREAM KEY  
DELIVERABLES:  
WHY & WHEN?**

# A new arrangement of familiar topics

2010 Dry run	2011 Workstream
<i>New for 2011</i>	Internal Model SCR
<b>QIS5</b> <i>and new for 2011</i>	Valuation & Balance Sheet
TP and QIS5	Technical Provisions & Standard Formula
SQS, CVP & EMD	Model Validation
SOG, MSG & ORSA	Governance, Risk Management & Use
SREP	Reporting & Disclosure
DOC <i>and new for 2011</i>	Documentation & <b>Final Application</b>

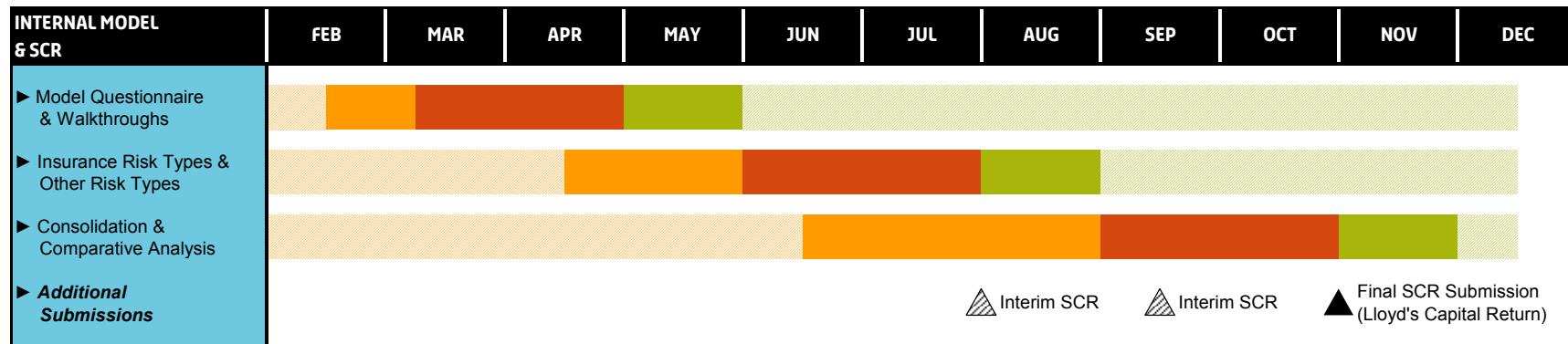
# Internal Model SCR

## Why?

- To ensure SCRs meet the demands of the Lloyd's Internal Model
- Syndicates must provide sufficient evidence of robust process to allow LIM to place reliance on syndicate SCRs

## When?

- Full SCR return to calibrate the LIM required by 31 October
- Interim submissions to provide partial / real data to test the LIM



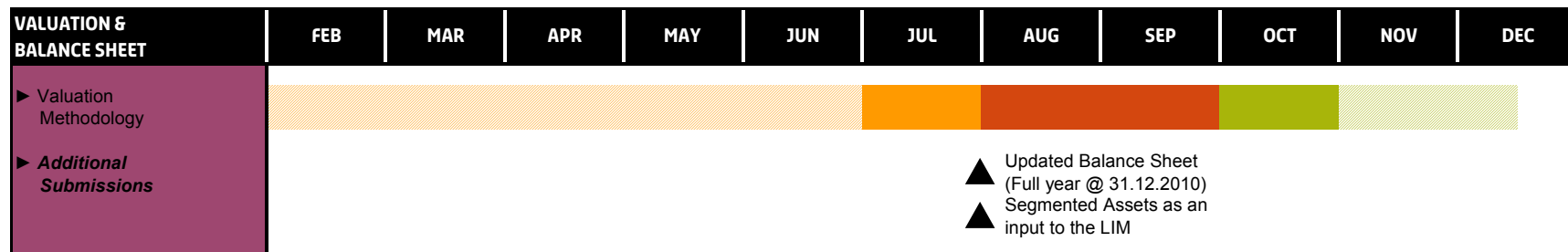
# Valuation & Balance Sheet

## Why?

- Test that syndicates can produce a Solvency II Balance Sheet
- To provide asset data to populate the LIM, which will use an ESG to model market risk consistently across all links in chain of security

## When?

- Full Solvency II balance sheet at December 2010 required by 31 July
- Segmented asset data by 31 July





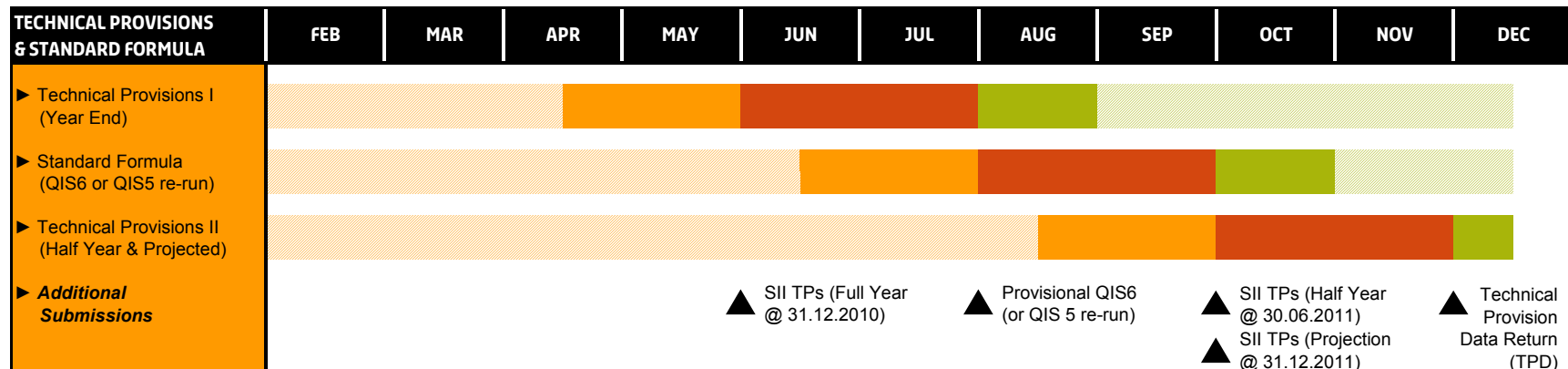
# Technical Provisions & SF SCR

## Why?

- Test that syndicates can produce regular and projected TPs
- To provide TP data to populate the TPD and GQD

## When?

- Year end 2010 TPs by 31 May
- Full Standard formula recalculation by 31 July
- Projected and half year TPs by 30 September
- TPD data by 30 November



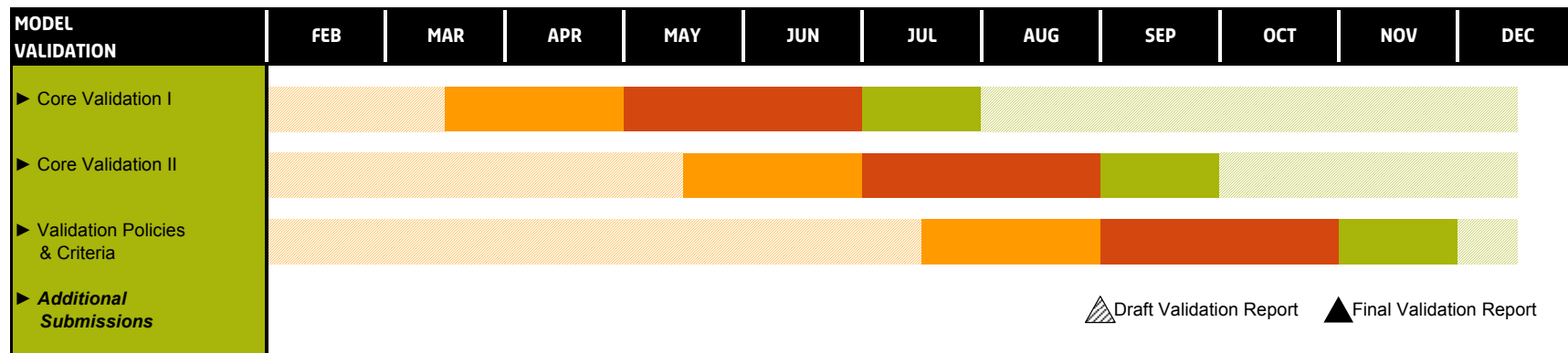
# Model Validation

## Why?

- Verify appropriate calibration and validation of SCR for inclusion in LIM
- To ensure that agents can evidence that internal and external models meet the required tests and standards

## When?

- Draft validation report by 31 August
- Validation report by 31 October (with IM SCR)



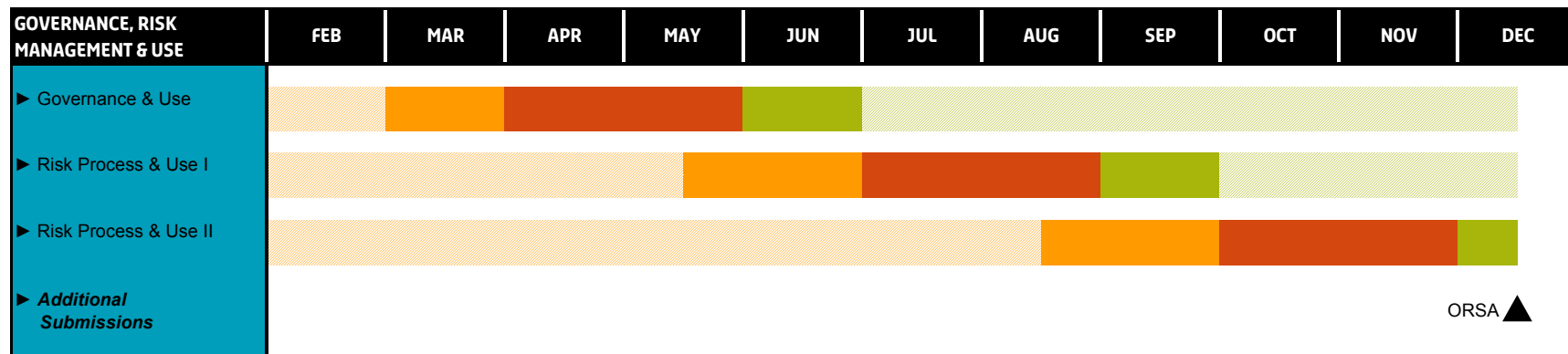
# Governance, Risk Management & Use

## Why?

- Agents must demonstrate that systems of governance are adequate and meet the standards
- Test that agents can demonstrate use of the model
- Ensure appropriate model governance is in place

## When?

- ORSA required by 16 December



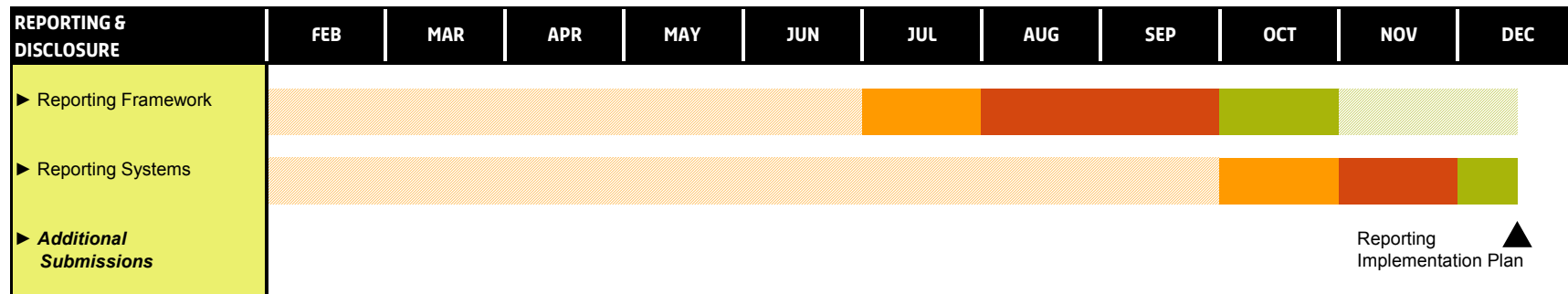
# Reporting & Disclosure

## Why?

- Test that syndicates will be able to produce Solvency II returns to required standards within accelerated timings
- Robust plan in place to develop systems and framework required

## When?

- Reporting implementation plan by 16 December



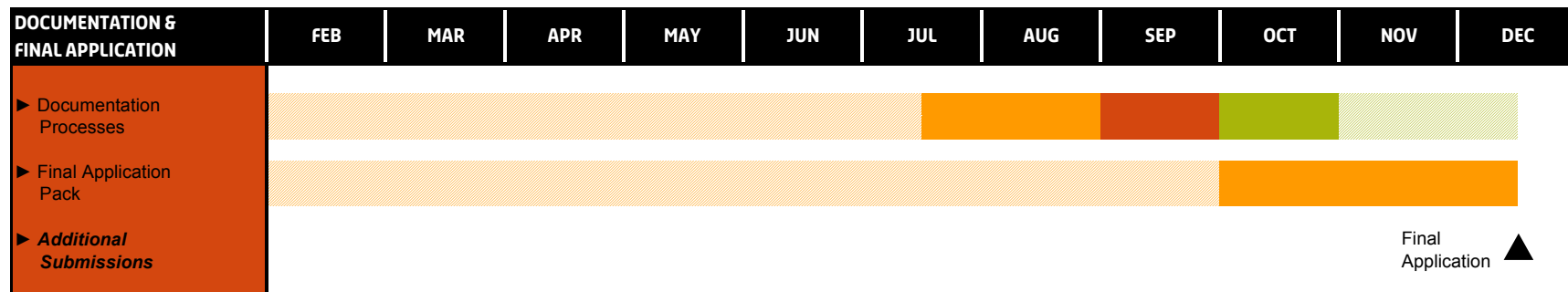
# Documentation & Final Application

## Why?

- To ensure that agents have sufficient documentary evidence of Solvency II compliance in place
- Agents can provide sufficient assurance to Lloyd's that model meets required standards

## When?

- Final “application pack” by 16 December



# **THE NEED TO DELIVER**

# 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**

# Independent assurance should be part of good programme governance

- Process must provide evidence to agent Board and Lloyd's that self assessment is fair and properly represents progress
- Lloyd's will not mandate a prescribed approach
- Does not need to be external review
- Agents must advise us of their assurance process with first scoring self assessment at end February
- This is **not** the same as independent validation required of the internal model



# No changes to timeline from draft Omnibus II Directive

- Confirms 1 January 2013 start date
- Transitional measures mentioned in Directive are uncertain
  - no firm details until later in 2011
  - Commission may only enact part of these
- Lloyd's and LMA view is that we must keep to the current timetable and not lose momentum
- Lloyd's committed to giving managing agents as much support as possible ...
  - ... but we will not allow individual syndicates to jeopardise overall LIM approval
- Strong steer from the market for us to use sanctions as required

**DISCUSSION TIME**

# Suggested points for discussion

- **Challenges / obstacles**
  - what are the key external pressures on timing or resources?
  - most difficult areas to address / deliver?
- **Review focus areas**
  - any uncertainty about workstream objectives, module topics or the link to final deliverables?
  - any concerns on order of topics?
- **Agent responsibilities**
  - any concerns about how to go about self assessment, independent assurance, explain & evidence, declaration of compliance?
- **Workshops**
  - Lloyd's proposed schedule published – any views?
  - what would be most valuable to you in terms of content / format?

# **ROUND UP AND QUESTIONS**

# Summary

- Hope today's session has been useful
- Slides will be made available on [lloyds.com](http://lloyds.com)
- We will look to incorporate views and challenges where possible
  - however end objectives and dates are fixed so only so much we can do!
- Final guidance will be issued on 18 February
- Self scoring and model questionnaire are the first returns due
- Busy schedule of workshops planned for 2011
  - all ideas welcome via your account manager or via [solvency2@lloyds.com](mailto:solvency2@lloyds.com)

# FSA review of the Lloyd's Internal Model

Graeme Tennyson

February 2011

# Agenda

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- **Objectives**
- **Our Approach**
- **Groups**
- **Legislation Updates**
- **Regulatory Reform**
- **Questions**

# Objectives

- The nature of Lloyd's makes the implementation of Solvency 2 complex task.
- We intend to approve a single internal model for Lloyd's under Article 112 of the Directive.



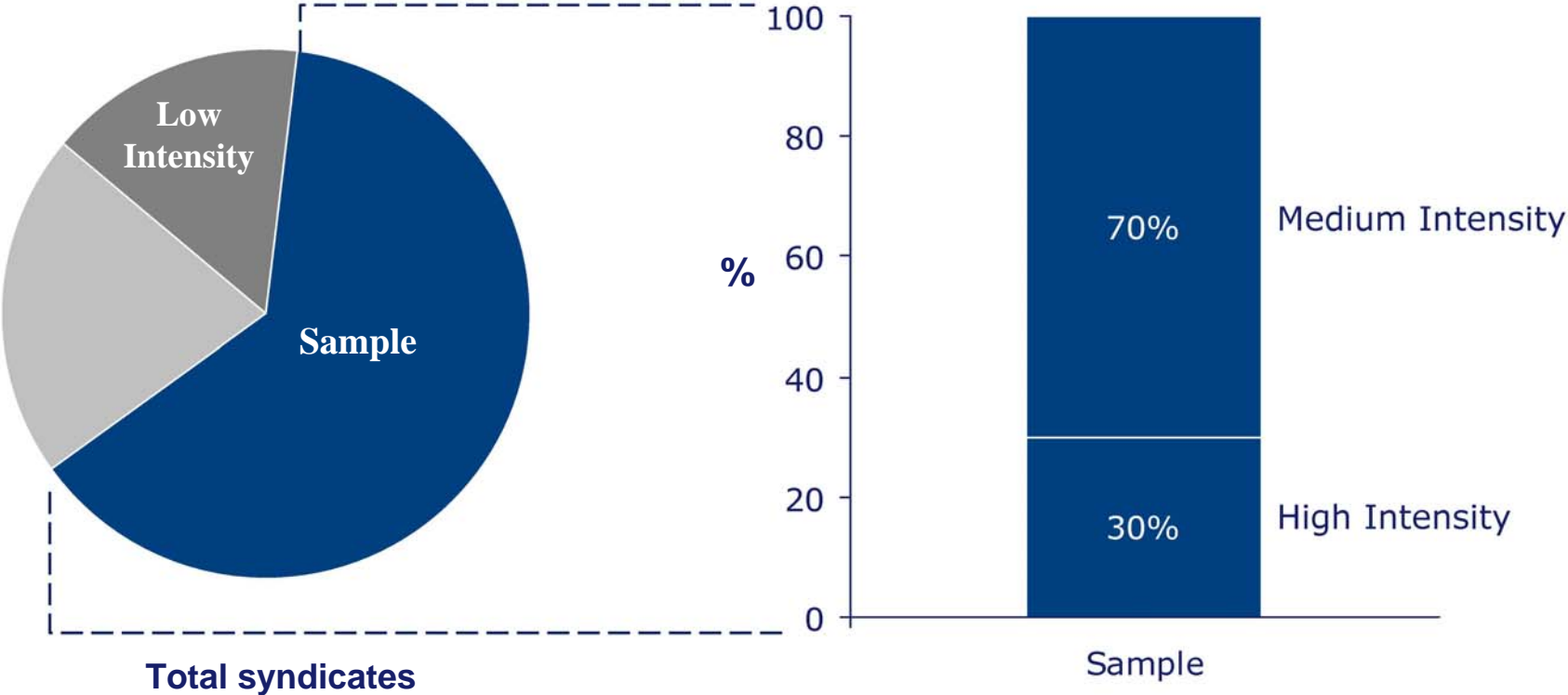
- In order to do this we need to ensure that the Syndicates have in place appropriate arrangements to meet equivalent qualitative and quantitative tests and standards to those required of insurance companies.
- Syndicates will need to meet the requirements set out in Articles 120 to 126 of the Directive in respect of their 'models'.
- In order to validate that this is taking place we intend to review a sample of managing agent models in 2011



# Our approach



We have selected a sample of managing agents to review based on certain criteria



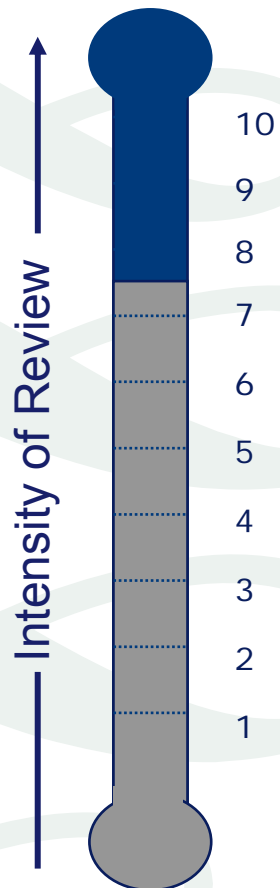
# Next steps..

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- **We will be inviting firms into our sample towards the end of February.**
- **There are 3 levels of review that will vary in intensity.**
- **We will also conduct themed exercises to cover specific issues across syndicates.**

# The three levels of review



**High intensity** – Near full review of the internal model work being carried out by the managing agent, in accordance with our own tailor made process. This will NOT mean that you need to complete the entire IMAP process.

**Medium intensity** – Less intense review of the work being carried out by the managing agent. This will be tailored to each firm. It could for example start with a presentation by managing agents to us covering the internal model and project plans.

**Low intensity** – Review and assessment of the evidence gathered by Lloyd's regarding each agent's compliance or non-compliance with the Directive tests and standards.

# Groups with Lloyd's components

## Groups

Need to consider if firm is an insurance group or mixed activity group - based on the main business carried out by the group.

## IMAP

Insurance Groups that are undergoing the IMAP at Group level will automatically be a part of our process for their Lloyd's components.

## Approval

However approval for the group does not mean approval for the group's Lloyd's platform.

## Status

Members are unregulated financial undertakings. They are not considered separately from Lloyd's under the Directive.

## Mixed Activity

A notional MCR/SCR will be calculated for all members' at Lloyd's level.

The provisions in the Framework Directive concerning lead (group) supervisors and supervisory colleges, will be developed further under Level 2.

# Updates

- The European Commission published its proposals for the Omnibus 2 Directive on January 19<sup>th</sup> which will now be sent to the Council and the European Parliament for consideration.
- The proposed Omnibus II Directive contains a limited set of amendments in relation to Solvency II, which include:
  - further tasks for EIOPA including harmonising technical approaches on the use of ratings in relation to the solvency capital requirements;
  - extending the implementation date by two months (to 1<sup>st</sup> January 2013) to ensure better alignment with the end of the financial year of the majority of insurance and reinsurance undertakings; and
  - enabling the European Commission to specify transitional measures in certain areas - including hybrid capital instruments, third country supervisory equivalence, valuation of assets and liabilities and technical provisions - if deemed necessary to avoid market disruption and to allow a smooth transition to the new Solvency II regime.

# Regulatory reform

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- **The FSA remains committed to implementing Solvency 2 appropriately.**
- **Lead responsibility for Solvency 2 will transfer to the PRA in due course.**
- **IMAP and risk appetite.**

# Questions



