LLOYD'S

SOLVENCY II
2013 GUIDANCE NOTES

JANUARY 2013

CONTENTS

INTRODUCTION

Purpose

Given the current uncertainty around the Solvency II timetable, Lloyd's wishes to provide managing agents with as much clarity and certainty as possible in order to assist planning. Following the Directors' Briefing sessions held in November 2012 and the 2013 planning workshop sessions in January 2013, this guidance document provides further information on Lloyd's approach to the completion of Solvency II review work, the proposed 2013 timetable and the transition of Solvency II into business as usual.

Solvency II Implementation Date

In October 2012, the FSA issued a statement on adapting to Solvency II policy uncertainty and Lloyd's communicated details of this to agents. In a speech, Julian Adams of the FSA indicated that the current proposed Solvency II start date of 1 January 2014 is no longer achievable although no new timetable has been proposed by the European Commission (EC) at this stage. In the absence of any further clarity on timelines, the FSA have set the end of 2015 as a realistic interim planning period. Lloyd's plans therefore assume a 1 January 2016 implementation date but agents should note that this is a planning assumption only and is subject to change as further clarification from the EC emerges.

EIOPA Update

The European Insurance and Occupational Pensions Authority (EIOPA) remain concerned about the continuing uncertainty over the start date of Solvency II, and have written to the EC to ask for a clear timetable to be provided for full implementation. In the meantime, EIOPA is proposing that 'interim measures' be introduced as a step towards full implementation to enable 'a consistent and convergent approach with respect to the preparation for Solvency II'. It is expected that EIOPA will issue these proposals for consultation in Spring 2013, and then issue the finalised guidelines to its constituent national supervisors, including the FSA/PRA, a few months later. Each regulator will have to 'comply or explain'.

These measures, which would apply from 1 January 2014, are expected to cover the following areas:

- Governance, risk management, and forward assessment of risks on 'ORSA' principles
- Supervisory review of governance
- Supervisors' internal model approval process
- Information needed 'for applying a prospective and risk based supervisory approach'

Lloyd's is monitoring these developments closely, and we shall review the detailed proposals when they emerge and advise agents accordingly. However we do not expect the impact to be significant, given the progress that Lloyd's and agents have already made towards implementing Solvency II and our plans as set out in this document in transitioning to Solvency II as business as usual.

FSA Update

The FSA has expressed an intent to allow firms to use Solvency II models under an enhanced ICAS regime in the meantime and have been engaging with the industry on what this means in practice. Your attention is drawn to a letter which Julian Adams, Director Insurance at the FSA, sent to the CEO of all IMAP firms on 29 January 2013. In this letter, the FSA sets out its approach and encouragement of the early use of Solvency II work to meet existing ICAS requirements, an approach known as ICAS+.

This letter is also available on the FSA's website (link to letter) and confirms that they are encouraging the use of Solvency II models and balance sheets to meet the ICAS requirements, as a stepping stone towards full Solvency II implementation. In particular, agents should note the following key points:

- The current ICAS rules will continue to apply
- The FSA, within their ICAS+ review, will review the firm's ICA and set ICG; provide feedback on the development of the firm's Solvency II internal model; and provide an updated workplan for the Solvency II model review
- The FSA will review the 'in development' ORSA.

The ICAS+ approach as set out in the FSA's letter is largely consistent with the approach that Lloyd's has already introduced with respect to capital setting for 2013 onwards and the phased implementation of other elements of Solvency II. Lloyd's does not therefore expect this to impact the plans already established for 2013 but we will continue to liaise with the FSA as their approach on ICAS+ develops.

Lloyd's approach to delay in implementation

Since October 2012, Lloyd's has been in active engagement with the FSA to ensure that the impact of any delay can be managed and in particular to ensure that the market will not be subject to the full burden of Solvency II compliance in advance of the regime going live.

The shift in timetable impacts both the immediate work on the Final Application and Sign Off (FAS) reviews and longer term planning for 2013 and beyond. Lloyd's has consulted with the market via the LMA Solvency II Committee to discuss how the timetable for the completion of managing agents' work as well as Lloyd's reviews should be revised to ensure a pragmatic approach which enables cost effective completion of the programme.

An overview of Lloyd's proposed approach was provided to all agents at the Director Briefings held on 29 & 30 November: Link to slides. Further detail was then provided to agents in both the draft guidance issued in December 2012 and the 2013 planning workshop sessions held on 22 & 25 January 2013. The material from the workshop sessions is also available on lloyds.com: Link to slides

This document has now been updated to reflect agent feedback on the draft guidance issued in December as appropriate and sets out the agreed approach for the FAS review and year end attestation process as well as the 2013 timetable.

2014 Capital Setting

Agents' Solvency II internal models and the SCRs output from them were successfully used during 2012 to meet ICAS requirements and to set capital for the 2013 year of account. Lloyd's will continue to use Solvency II models for capital setting purposes going forward and therefore the same approach will apply in 2013 for the 2014 year of account. In order to reach an ICAS equivalent capital level, a Solvency II balance sheet will continue to be required and further detail on this is provided in the following sections.

Please note that the dates relating to the 2014 capital setting submissions remain under discussion via the LMA and as such should be treated as provisional. These will be confirmed by the end of February 2013.

Detailed Technical Guidance

Agents should note that this document provides an overview of Lloyd's 2013 timetable and the impact of the Solvency II delay but does not seek to set out any detailed guidance on Solvency II requirements.

Lloyd's has issued multiple guidance documents since 2010 providing further detailed guidance on specific requirements and these are available on lloyds.com under the relevant workstream.

Revised draft Level 2 measures were published by EC in November 2011 but have not yet been finalised. As and when further details or changes emerge on Level 2 or Level 3 implementing measures, Lloyd's will issue updates to the published guidance as appropriate.

This plan and any further guidance issued is subject to ongoing discussion and change as the EC, EIOPA and FSA requirements become clearer.

FAS REVIEWS AND YEAR END ATTESTATION PROCESS

Lloyd's recognises the work and effort which agents put into the 5 October 2012 FAS submissions and we have therefore continued to review the material submitted in order to reach a view on all agents as at 31 December 2012 by the end of January 2013. However, Lloyd's considers it unreasonable to enforce 100% compliance against 100% of tests and standards at this point given the delay.

As set out previously, we will attest that an agent "meets the principles of all tests and standards" (or otherwise) as opposed to "meets all tests and standards" and we will therefore modify the level of attestation being provided to the FSA.

Further detail on what this means in practice and any implications arising where we do not consider that an agent meets the principles is covered in more detail below.

Final Application and Sign Off (FAS) reviews

All FAS reviews have now been completed together with an assessment by the Dry Run Oversight Panel (DROP) and agents are being advised of the outcome.

As set out in the introduction, Lloyd's FAS review process has assessed whether in our view each managing agent "meets the principles of all tests and standards". This is a binary assessment applied across all Pillar I and Pillar II requirements and the following criteria are used to make the assessment:

- the principles of the Solvency II directive/Level 1 requirements have been met
- sufficient structure, processes and policies are in place which address Solvency II requirements
- full granularity of underlying Level 2 and Level 3 requirements is not necessarily in place
- operating model not perfected but good enough to begin running and embedding key processes
- Lloyd's interpretation and application of requirements may still be under discussion with an agent

EXAMPLE – MODEL CHANGE POLICY

Completed

- ► Agent has model change policy in place, operational for 2013, which addresses directive requirements
  - Policy clearly sets out the governance process to be followed for change
  - Classification of major and minor changes is clear
  - Major change trigger(s) set with clear rationale and examples to justify (10-15%)
  - Model scope extension is classified separately to change process

Not fully finalised

- ► Agent may not yet be able to fully demonstrate changes going through the agreed process
- ► Some detailed requirements may need further guidance from Lloyd's/FSA, eg:
  - Aggregation of minor changes – start point and netting off vs absolute movements
  - Treatment of parameter changes

  BUT each agent should have an approach detailed on these elements which can be followed in 2013

Agents should note that where they do not meet the principles in any one area, Lloyd's will be unable to confirm that the agent meets the principles overall and this will result in a "no".

As set out below, where we are able to attest that an agent has met the principles of all the tests and standards as at 31 December 2012 and there is not material work outstanding, a Green rating has been assigned. Where we are unable to make a positive attestation, an Amber or Red rating has been applied based on the number of areas an agent is failing to meet and the degree of work remaining.

YES (Green rated agents)	**NO** (Amber/Red rated agents)
✔ All areas meet principles of SII requirements *and* ✔ Lloyd's & FSA material feedback addressed by 31 December *and* ✔ Work outstanding is minor/developmental only *and* ✔ Project phase finished and most elements in use *(excl Pillar III)* *and* ✔ Credible operating model and structure established *and* ✔ SCR reviews demonstrate model is credible and robust *(ie SCR methodology was appropriate and any loading was down to a difference of opinion – eg on parameters)*	✘ At least one area does not meet principles of SII requirements *and/or* ✘ Material feedback remains unaddressed at 31 December *and/or* ✘ Work outstanding will require significant resource and/or time to address *and/or* ✘ Significant project work remaining to be completed *(over and above Pillar III)* *and/or* ✘ Agent has not set out a credible operating model at this stage *and/or* ✘ SCR reviews raise material concerns over model and output

Ratings

Lloyd's will continue to use a "RAG" rating system in 2013 to reflect an agent's Solvency II status. The rating applied at 31 January will be kept under review and where agents make progress, closing any gaps outstanding against the principles, a rating upgrade will be applied. However, agents should also note that failure to maintain the position of compliance with the principles of the tests and standards or to address feedback within agreed timescales may result in a downward rating. The level and degree of follow up work in 2013 will be greater for those agents who are rated Amber or Red.

As set out previously, Lloyd's does not intend to enforce 100% compliance against 100% of tests and standards at this point in time and will not therefore apply prudential measures in 2013 solely for non-compliance with Solvency II. Agents should note however that prudential measures may be applied where Lloyd's considers that the areas of non-compliance mean that an individual agent poses an increased risk to the Central Fund. The chart below summarises Lloyd's approach in 2013 based on rating.

YES (Green rated agents)	**NO** (Amber/Red rated agents)
SCR review actions have already addressed ICAS requirements	
• Support agents in enhancing and embedding processes in operational mode • Full Agent Status Reports not required • Developmental feedback provided on all timetabled submissions • **Prudential measures would not apply**	• Greater level of scrutiny and oversight • Agent Status Reports required with regular and frequent interaction • Additional resubmissions required to address feedback on top of timetabled deliverables • Deadlines set for completion of work *(Fines will be considered for lack of response to feedback)* • **Prudential measures would only be applied at year end if Lloyd's considers gaps mean that agent poses greater risk to CF**

Feedback and follow up

Lloyd's review will look to set out clearly for each agent what further work if any remains to meet the principles of the tests and standards as well as any further work we consider needs to be completed in order to fully meet the tests and standards. This will help both Lloyd's and agents focus on the key areas that need to be addressed. Ultimately, full Solvency II compliance will be required and both Lloyd's and agents will need to ensure that progress against this continues to be monitored.

Any work outstanding against the principles will need to be addressed as soon as possible and Lloyd's would ask agents to target the end of Q1 2013 for completion. Lloyd's does recognise however that some work (e.g. on use test) may take longer and will agree alternative timescales with agents where appropriate. Closure of outstanding issues against the principles is likely to require resubmission of relevant documentation to Lloyd's for review.

Agents should note that as set out at the January workshops, Lloyd's will produce a feedback log for each agent which will capture all outstanding review points. Lloyd's will work with agents to determine which issues impact compliance with the tests and standards versus those which are developmental or optional. In most cases, Lloyd's would expect to see agreed feedback reflected in the next timetabled submission unless an interim submission date is agreed with the agent.

As set out above, there will be greater interaction and follow up with those agents who are rated Amber or Red and progress reporting will be required until Lloyd's deems any outstanding work required to meet the principles of the tests and standards has been completed. Lloyd's will agree clear timescales with agents in which any outstanding feedback should be addressed and fines similar to late filing penalties will be considered for lack of response to feedback. Lloyd's will also agree with agents clear timescales for providing feedback on revised submission and/or thematic review work as appropriate.

In line with the principles underlying Solvency II, Lloyd's will expect agents to improve and refine operational processes and documents over time and we will continue to provide developmental feedback to agents.

APPROACH FOR 2013 AND BEYOND

Whilst there will be a delay to the timetable, we can assume that Solvency II rules will ultimately apply and therefore keep working towards full implementation. As set out earlier, Lloyd's has assumed a January 2016 implementation date for planning purposes and we have based our proposals on this. Agents should be aware however that this is not a definitive timetable and has only been used as a pragmatic planning period given the FSA's stated approach. As set out earlier, EIOPA's proposals on 'interim measures' which are expected in Spring 2013 may also impact the timetabling of work and this plan is therefore subject to change and revision.

During 2012, Lloyd's discussed internally what we considered to be the available options. These were also shared and discussed with both the LMA and the FSA and are set out below:

- **Full Stop** - complete the review of FAS submissions and park SII programme until further stage when clarity on requirements and implementation becomes certain
- **Soft Landing** - staged transition into BAU introducing requirements on a staggered basis through 2013 to 2015 (e.g. greater initial focus on Pillar I and II with slow down on Pillar III)
- **Full Steam Ahead** - continue to push for regulatory approval based on current standards. Agents will subsequently be required to maintain full compliance and demonstrate use from 1 January 2013.

All options were discussed and "Soft Landing" was deemed the appropriate approach to take. A phased implementation was viewed as the most efficient approach, avoiding the full burden of Solvency II compliance in advance of go live whilst not losing the good work already completed. Lloyd's considers that this approach also aligns with the principles of the FSA's ICAS+ proposals.

Further detail on this approach and the 2013 timetable are set out in the following sections.

"Soft Landing" Approach

Under the proposed "soft landing" approach, quantitative requirements will apply immediately to support the use of Solvency II models for capital setting purposes whilst qualitative requirements will be phased in over 2013 to 2015. The 2013 capital setting process demonstrated that there is no material impact on overall capital levels using Solvency II models versus ICAS models.

Lloyd's considers that the "soft landing" will allow agents to develop and enhance value added activities and will help avoid the risk of wide disparity in development of approaches across the market. It will also ensure that Lloyd's maintains visibility of progress on embedding and use of key Solvency II processes and will ensure efficiency of review work ahead of full Solvency II implementation.

Lloyd's will continue to require submissions from agents in 2013 but fewer than in 2011 or 2012. Submissions have been split between "hard test" requirements (largely quantitative) and "soft test" requirements (largely qualitative).

A hard test submission should be treated as a business as usual deliverable and should comply with all relevant requirements whilst a soft test submission should be made on a best efforts basis. Both hard and soft test submissions are mandatory for all agents as per the timetable included at **Appendix 1** and Lloyd's would expect both to continue to reflect any feedback arising on the previous submitted version.

The 2013 submissions will focus on the key Solvency II processes including those required to support capital setting and those which Lloyd's consider add significant value. The timetable on some Solvency II areas will be extended – for example Pillar III where the proposed 2013 dry run will be deferred.

Further detail of what is required on both quantitative and qualitative elements is set out below and a schedule showing phased implementation by current workstreams is included at **Appendix 2**.

Quantitative Requirements

On the same basis as for the 2013 year of account, Lloyd's will require both the one year SCR and the "SCR to ultimate" numbers to be submitted for all syndicates via the Lloyd's Capital Return (LCR). In order to ensure that overall capital levels provide equivalent protection with that required under ICAS, Lloyd's will also require a full Solvency II balance sheet including Solvency II technical provisions to be submitted.

The one year regulatory SCR number is required to assist with the Lloyd's Internal Model (LIM) calibration and the SCR review process. It is not anticipated that Lloyd's will require agents to submit a standard formula calculation in 2013 although agents should note it is possible that data requests may be made by EIOPA and/or the FSA on this.

Qualitative Requirements

Qualitative requirements will continue to apply to at least current ICAS, Solvency 1 or Lloyd's Minimum Standards level. Under the "soft landing" proposal, Lloyd's considers that some key valuable Solvency II processes should be run on a soft test basis in 2013 and 2014 to ensure that they continue to be developed and embedded ahead of full Solvency II implementation.

The key processes which Lloyd's have identified to be run and submitted on a soft test basis are:

- Model Validation
- Model Change
- ORSA
- Use Test

Agents should note that Lloyd's will also require the Actuarial Function report to be submitted on a soft test basis to support the calculation of technical provisions. However, no opinion on underwriting or reinsurance will be required for the 2013 submission.

Submissions will be required from agents to support the running of these processes and the timings are included in the 2013 timetable at **Appendix 1** with further detail on the submissions themselves provided below. Agents will be required to run these processes according to the policies they have in place and in line with the operating models submitted to Lloyd's in October 2012. Soft test submissions are mandatory for all agents and should be made on a "best efforts" basis. Lloyd's will continue to review and provide feedback to agents on these soft test submissions and will expect agents to continue to address feedback provided.

Further support will also be provided from Lloyd's via workshops, guidance and thematic review work as appropriate. Agents should note that the timing and frequency of soft test submissions may be different to that required under business as usual once Solvency II is live.

Below is an example which provides further detail on what Lloyds means by a soft test submission:

EXAMPLE – MODEL CHANGE POLICY

- Scope and frequency of model change assessment should continue as per the agent's model change policy
- Model is not yet locked down and "approved" so no formal approval required from Lloyd's on major changes
- Lloyd's will require submissions from agents but lower frequency than BAU *(ie not quarterly at this stage)*
- Lloyd's will review basis of application of policy and provide developmental feedback to agents
- Lloyd's will continue to provide market guidance and develop its own BAU processes

As well as working on the processes listed above, agents should ensure that Solvency II documentation continues to be maintained and updated as processes are developed and refined.

Board Responsibilities

The responsibility for ensuring that a managing agent can continue to meet the Solvency II tests and standards lies with the Board of the managing agent. As set out above, the current requirement for agents is to meet the principles of the tests and standards but in due course, full Solvency II compliance will be required. Board and senior management will therefore need to gain assurance that the syndicate operations will be co-ordinated effectively between functions to demonstrate this and ensure that quality levels achieved for the FAS position are maintained as a minimum going forward.

The Board must ensure that appropriate documentation and records are maintained to disclose with reasonable accuracy at any time the status of compliance with the requirements. The Board is also responsible for notifying Lloyd's as soon as possible if any of the conditions for compliance cease to be met.

In Lloyd's view, establishing good processes now will allow the approach to be developed and adapted to become more efficient and effective as time progresses. Lloyd's will therefore require a Board confirmation of Solvency II status to be submitted in October 2013. This is likely to be a short summary declaration similar to the statements signed off on for both FAP and FAS submissions and Lloyd's will provide the required wording to agents by the end of Q2 2013.

Independent assurance

The requirement for all managing agents to implement an appropriate independent assurance process over their status reporting in respect of Solvency II compliance has applied during the Dry Run in 2011 and 2012. Whilst Lloyd's is not holding agents to full compliance against the tests and standards in 2013, it is important that independent assurance is maintained and agents can demonstrate that they continue to meet the principles.

Lloyd's does not plan to conduct significant re-review work against the full Solvency II tests & standards ahead of full Solvency II implementation and will use the January 2013 assessment point as a basis to maintain an on-going view on agent rating and status. The onus will be on agents to demonstrate that this status is being maintained as a minimum. Whilst there is no scheduled 2013 submissions, Lloyd's would expect agents to update evidence templates to reflect any substantial changes in approach and/or underlying evidence throughout 2013.

It is therefore important for agents to maintain at least part of the independent assurance process which they have established for the dry run. Whilst the process can be scaled back in some areas for 2013 (e.g. no self scoring required) the principles still apply and the process should not be discarded. Lloyd's will not require a separate "independent assurance" report to be submitted by agents but will expect agents to have evidence available of work conducted. Agents should be able to demonstrate to Lloyd's if required:

- how the assurance process has been conducted and by whom
- the scope of the work conducted and reliance placed on any other processes (e.g. model validation, internal audit review cycles)
- the conclusions it has reached and any issues raised

Lloyd's would also expect to see evidence that the outcomes are presented to and discussed by the Board to support the confirmation statements made to Lloyd's.

The assurance process may be conducted by internal or external resources provided that it can be demonstrated to be independent. In a number of cases, agents' Internal Audit functions have fulfilled this role during the dry run process but this approach is not mandated by Lloyd's. If this approach is adopted, agents will need to demonstrate that their Internal Audit or alternative function have the right skills to conduct the required reviews, or co-source to supplement existing resources.

Given the delay to full implementation of Solvency II, no full quarterly attestation on Solvency II compliance will be required in 2013 and 2014 although the requirement for a quarterly capital adequacy confirmation via the QMR will remain as under ICAS. Agents should note however that as set out previously, Lloyd's will require a board sign off on Solvency II status in October 2013. Agents should be able to provide a summary of assurance activity conducted if required, in line with the guidance above. Confirmation of on-going compliance with the principles, and in due course the full tests and standards, must relate to the wider definition of the internal model and not just the calculation kernel. It will therefore need to include governance around the model and supporting processes.

Agents should ensure that provision is made for at least an annual cycle of model validation, and a check to ensure that governance arrangements remain adequate and effective. This will provide the requisite assurance that managing agents' Boards have effective controls in place to ensure on-going compliance together with provision of evidence of those processes to Lloyd's. Independent validation of the model is a specific requirement under Solvency II and a Validation Report will be required as an annual submission to Lloyd's. In addition, Lloyd's current Governance standards require that an annual board effectiveness review is conducted. As part of the 2011 Risk review work, agents were advised that Lloyd's would also expect to see annual review of the wider governance framework and not just the Board.

Next steps and transition to BAU

In the "Application letter and sign off statements" guidance issued in August 2012, Lloyd's proposed to implement a Syndicate Review Function with effect from 1 January 2013 to oversee on-going compliance with Solvency II.

Further discussion has taken place internally since then and a wider "Risk Assurance Function" has been established from January 2013. In addition to having responsibility for on-going Solvency II review and oversight work, the function will also have visibility across all Lloyd's standards review work to provide a co-ordinated overall view of an agent.

The function will rely primarily on the existing team of Solvency II Account Managers. The current Dry Run Oversight Panel (DROP) will be maintained through Q1 and into Q2 2013 to allow completion of the project phase of Solvency II and will gradually transition its responsibilities on Solvency II oversight and decisions on model authorisation to a new Standards Assurance Group (SAG) during 2013.

In Q1 2013, the function will begin work on an assessment and review of Lloyd's existing minimum standards. Lloyd's proposes to revise these to ensure alignment with Solvency II and establish one set of "Lloyd's Standards" which covers all requirements in a 3 tier approach

(i) Regulatory requirements (eg Solvency II, FSA handbook)

(ii) Lloyd's specific requirements

(iii) Guidance/best practice

Further detail was provided on the Risk Assurance Function as part of the 22 & 25 January workshop sessions. Link to slides

As work progresses on this, Lloyd's will provide regular updates and seek input from the market. In the meantime, agents should note that the current Lloyd's Minimum Standards will continue to apply and be used as a review tool as appropriate.

2013 TIMETABLE AND DELIVERABLES

The proposed timetable for 2013 can be found in **Appendix 1** and includes all capital and Solvency II related deliverables required throughout the year. The timetable also shows allocated workshop/briefing sessions as well as additional dates which have been provisionally reserved for further sessions.

Agents should note that as the project phase of Solvency II comes to a close, the timetable is no longer split by workstreams but is separated into quantitative and qualitative deliverables although the relevant workstream is shown for each submission. Lloyd's will no longer require regular market-wide submissions of self scoring assessments, agent status reports or evidence templates. As set out previously Lloyd's will follow up on FAS reviews and feedback with agents on an individual basis and some additional resubmissions may therefore be required over and above those set out in the timetable.

Further information is provided on each deliverable in the following pages and the table below shows the level of sign off required for each submission:

SUBMISSION	DATE	SIGN OFF
GQD Return	Quarterly	Board Awareness
2013 SCR Re-assessment	7 March	Full Board sign off
SII Balance Sheet @ 31.12.12	7 March	Full Board sign off
ORSA	28 March	Full Board sign off
TPD Return as at 31.12.12	4 April	Director sign off on behalf of the Board
Actuarial Function Report	19 April	Signed by Actuarial Function - Report to the Board
LIM Asset Return @ 31.12.12 (Dry Run)	June	Board Awareness
Draft SCR submission	4 July*	Full Board sign off
Validation Report *(voluntary submission)*	4 July*	Signed by Validator – Report to the Board
Model Change Report	12 July	Board Awareness
SII Balance Sheet @ 30.6.13	5 September	Full Board sign off
Final SCR submission	12/19 Sept*	Full Board sign off
Validation Report	26 September*	Signed by Validator – Report to the Board
Confirmation Statements on SII Status	25 October	Full Board sign off
LIM Asset Return @ 30.9.13	1 November	Board Awareness

* *Agents should note that these dates are currently still provisional and the format and timing of capital submissions are under discussion with the LMA.*

Quantitative submissions

2013 SCR Re-Assessment – due 7 March

All agents are required to formally re-assess the appropriateness of the 1 year SCR and "SCR to ultimate " and advise Lloyd's whether there has (or has not) been a material change in the risk profile by 7 March.

Where there has been a material change in the risk profile, the agent is required to submit a full updated Lloyd's Capital Return (LCR) submission via the Core Market Returns (CMR) system. For these purposes, materiality may be assessed as a movement of more than 10% in the aggregate SCR for the whole syndicate. Where there has been no material change, agents are required to confirm this to Lloyd's.

Further details on the minimum steps we expect agents to perform in their review have been issued under separate cover and are available together with the 2013 SCR guidance document via the link below:

Link to Re-assessment instructions and Guidance

TPD Return as at 31 December 2012 – due 4 April

The TPD return as at 31 December 2012 is required to be submitted on 4 April 2013. This return must be submitted via the CMR system and full instructions are available on the site.

Agents should note that in 2013 the TPD return replaces the Solvency and Reserving Data (SRD) return and that no separate TP return as at 30 June is required in 2013 outside the QMC return.

GQD Return - Quarterly

The GQD return is required to be submitted on a quarterly basis throughout 2013. This return must be submitted via the CMR system and full instructions are available on the site.

SCR via Lloyd's Capital Return – provisional dates 4 July & 12/19 September

As in 2012, provisionally we expect that agents will be required to submit for each syndicate both a draft and final SCR via the LCR as set out below:

- A *draft* 2014 SCR in July which must be accompanied by a full SCR document explaining methodology used to calculate the SCR. Lloyd's also requires agents to submit an analysis of change covering the movement from the final 2013 ultimate SCR and this can be included as part of the Model Change Report due on 12 July.
- A *final* 2014 SCR in September which should be accompanied by an analysis of change document covering any changes from the July submission. Non-aligned syndicates are required to submit on 12 September and aligned syndicates on 19 September.

The submission date for the draft SCR has moved forward by two weeks in response to feedback via the LMA. This earlier submission date will allow further time for review feedback to be addressed in the final submission and align with Syndicate Business Forecast (SBF) submission dates. The submission date for the final SCR has been split between non-aligned and aligned syndicates as above.

Agents should note that these dates are currently still provisional and the format and timing of capital submissions are under discussion with the LMA. At present, agents should plan on the dates given and that the LCR will include some of the quantitative template data provided via excel for the 2013 SCR review. The LCR will continue to include consideration of both the one year SCR and "SCR to ultimate". We also expect to include a questionnaire to facilitate a quicker and smoother review and feedback loop. Both the timetable and any changes to the format of the LCR will be finalised and communicated to the market by the end of February.

As for the 2013 SCRs, the basis for the draft SCR is the initial SBF. Lloyd's would expect that the annual review of parameters, dependencies etc should have been completed ahead of the draft SCR submission. The basis for the final SCR number is the final SBF submission. Lloyd's review of the final SCR will focus largely on the number submitted and agents will be required to submit an analysis of change between this and the draft number.

Solvency II Balance Sheet

As part of the planned capital setting process for 2014, Lloyd's will require all agents to submit a full Solvency II balance sheet both as at 31 December 2012 and 30 June 2013. This submission is now incorporated into the Core Market Returns (CMR) system as the QMC, which comprises two forms.

The Solvency II balance sheet itself (QMC002) should report the UK GAAP balance sheet as a start point, the adjustments to get to a Solvency II position and the Solvency II balance sheet at whole syndicate level. In addition, a breakdown of members' balances will be required by reporting year. The QMC210 form collects an analysis of the adjustments which are made to the UK GAAP members' balances in order to arrive at the Solvency II members' balances on QMC002. Lloyd's considers that this reconciliation should provide useful audit evidence for the required opinion.

31 December 2012 submission – due 7 March

The QMC for 31 December 2012 must be submitted to Lloyd's by 7 March 2013. Along with QMC002 and QMC210, a managing agent's report (QMC910) must also be provided. The 31 December 2012 QMC return is required to have a full audit (QMC930) as the Solvency II members' balances reported on QMC002 will be used in the members' capital tests. This is equivalent to the independent assurance sought on the UK GAAP members' balances reported in the QMA as at 31 December, when they solely formed the basis of determining members' net assets for capital purposes. There is no requirement for an actuarial opinion.

The 31 December 2012 QMC forms and instructions are now available for download from the CMR website. The 'live' QMC system is also available to agents within CMR. Agents should note that the risk margin is excluded from the audit scope.

30 June 2013 submission – due 5 September

The QMC for 30 June 2013 must be submitted to Lloyd's by 5 September 2013. As for the 31 December 2012 QMC, a managing agent's report must be provided as well as an audit 'review' opinion as the Solvency II members' balances reported on QMC002 shall be used in the members' capital tests.

LIM Asset Returns

Syndicate investment disposition data is required for input into the LIM in order to calculate Market Risk capital requirements under Solvency II. The relevant collection dates are as follows:

- **As at 31 December 2012** – soft test submission as a dry run in June 2013
- **As at 30 September 2013** – due by 1 November 2013

Both submissions must be made via the Core Market Returns (CMR) system, and submission files and formal guidance were issued by Lloyd's during August 2012 and are available via the link below.

Further clarification on timings of the dry run will be provided to agents in spring 2013.

Link to submission files and Guidance

Qualitative submissions

ORSA Report – due 28 March

Lloyd's require all agents to submit their latest ORSA report by 28 March 2013. As set out earlier in this document, these submissions will be on a soft test basis and Lloyd's will review and provide feedback on submissions in Q2 2013.

Syndicate ORSA report(s) to be submitted in 2013 should:

- Cover each syndicate under management.
- Be the latest version of the ORSA completed by the firm and be no more than 6 months old.
- Be consistent with 2013 Syndicate Business Forecast (SBF) submissions or explain any differences between the two (e.g. differences of timings or accounting basis in the preparation of the ORSA report compared to the 2013 submitted SBF).
- Incorporate the guidance issued in May 2012 (refer to link below) along with feedback provided by Lloyd's on previous ORSA submissions.

Link to previous ORSA Guidance

Further ORSA considerations for 2013

Agents should note that Lloyd's wishes to collect some additional information via the ORSA report in 2013 where available as detailed below.

Market Upturn Event

Where managing agents have assessed the impact of a "market upturn event" as part of stress and scenario testing, Lloyd's would like them to include conclusions within the ORSA.

The purpose of the request is to allow the Corporation to understand the level of preparedness across the market in order to guide further work determining how the Corporation would support the market in such circumstances, as outlined in the Lloyd's Three Year Plan.

We do not intend to prescribe or predict what the market upturn event may be or the considerations managing agents should make as we expect these to vary across the market. However, aspects managing agents may wish to consider are:

- Identifying contingent sources of capital
- Structures that might be used to support additional underwriting
- Likely changes to business plans submitted to Lloyd's
- Speed of implementation

Where such analysis has already been provided to Lloyd's in the past, no further action is required

International Growth

We request managing agents to indicate where intended growth is planned to come from, in particular which territories, where a managing agent has identified potential growth over the next 3-5 years.

The purpose of this request is to allow the Corporation to assess any gap between Vision 2025 goals for international growth and the market's current level of appetite.

Growth assessments are not expected to be provided at a granular level, in particular given the inherent uncertainty in longer term projection. However, an indication of growth aspirations in 'priority' countries (China, India, Brazil, Mexico, and Turkey) would be useful.

The ORSA submission in March, including the two considerations mentioned above, may be provided in ‘appendix’ format if the managing agent has updated aspects of the ORSA but not the full report since the last submission.

Agents should also note that as in 2012, an affirmation of the ORSA, or an update to reflect any changes, will be required as part of the 2014 SBF process. Further details of this will be provided within the 2014 SBF Guidance document.

Actuarial Function Report – due 19 April

The Actuarial Function report should be submitted to Lloyd’s on 19 April 2013 on a soft test basis and need only cover the requirements relating to Technical Provisions. Agents should ensure that this submission addresses the feedback provided to them by Lloyd’s following the review of the 2012 submissions. As set out previously, no opinion is required on underwriting or reinsurance for 2013 and 2014.

Agents should refer to Lloyd’s guidance on the actuarial function for further information and this can be accessed via the link below:

Link to Actuarial Function Guidance

Model Change Report – due 12 July

Lloyd’s will require all agents to submit a report of model changes made in conjunction with the submission of the draft SCR submission (provisionally due on 4 July) on 12 July 2013. Ideally, the submission should record all model changes made since the final approved 2013 SCR to the submission point of the 2014 SCR or as a minimum, changes made from 1 January 2013. This submission should make clear which changes are classified as major and which are minor. Agents should note that no prior Lloyd’s approval for major changes is required in 2013.

Lloyd’s will provide a standard template to be used by all agents for this submission and this will be available by the end of February 2013 together with any relevant guidance on completion.

Validation Report – provisionally due 26 September

Lloyd’s considers model validation is a valuable process both for validating the SCR and an agent’s status against the tests and standards. We therefore require agents to conduct a full validation cycle and submit a validation report in 2013. The report should validate and support the SCR submission made and will also be expected to address feedback provided from Lloyd’s review of the validation report submitted on 5 October 2012. The final timing of this submission will be confirmed as part of the market consultation on the SCR submission dates.

Interim July submission

Agents should also note as set out at the capital briefing on 16 January, an interim validation report can be submitted with the draft SCR on 4 July. This is a voluntary additional submission and is not mandatory and does not remove the need to submit a full validation report on 26 September. Lloyd’s would encourage agents to perform as much validation work as possible ahead of the final SCR number being run in September. In particular, some of the qualitative elements of validation (e.g. model methodology, model governance, documentation and use) can be validated ahead of the SCR submission. Lloyd’s will review all validation reports submitted on 4 July and provide feedback to agents to allow any issues to be addressed in the final report on 26 September.

Independence requirements

Lloyd’s considers that there should be objective challenge within the validation process and to satisfy the Solvency II requirements the person taking responsibility for the validation should be independent of the model build and not "own" the model. However, independent does not necessarily mean external to the firm although Lloyd’s recognises that it may be harder to achieve without some external input. Likewise, it does not mean that all the validation tests should be carried out by someone independent (i.e. agents do not need a parallel "validation team").

Whilst full Solvency II requirements in validation are not yet in place, in order to meet the principles of the Solvency II tests and standards, agents are required to demonstrate how independence can be achieved and that the validation process is sustainable under business as usual. Lloyd's also recognises that the independence element does not necessarily apply under ICAS but agents are encouraged to continue to adopt a degree of independence to build experience and learn lessons now ahead of full Solvency II implementation.

The process to achieve independence should now be reflected in agents' validation policies and whilst full independence of validation will not be mandated in 2013, the validation report submitted must include demonstrable objective challenge.

Agents should refer to guidance previously issued on validation and this can be accessed via the link below:

Link to Validation Guidance

Board Confirmation of Solvency II Status – due 25 October

Lloyd's will require a Board confirmation of Solvency II status in 2013. This is likely to be a short summary declaration similar to the statements signed off on for both FAP and FAS submissions.

Lloyd's will consult with the market via the LMA during the first half of 2013 on the format and contents of this confirmation as well as the timing with the aim of issuing the relevant templates by end June 2013.

Given the delay to the timetable, Lloyd's will not require full quarterly attestations of compliance with Solvency II via the QMA in 2013 and 2014. Agents will however be required to continue to provide a quarterly capital adequacy confirmation as they do currently under ICAS. Agents should note that no attestation is needed with the QMA due in February as this will be covered by the SCR re-assessment due on 7 March, as part of the QMC.

Operating Model Documents

As part of the FAS review, Lloyd's has provided feedback to all agents on the operating model document which was submitted in October 2012. Agents will be required to explicitly address feedback received on the document and to continue to develop their operating model in discussion with Lloyd's during 2013.

Self Assessment Scoring and Agent Status Reports

Agents should continue to self assess their progress against the Solvency II tests and standards and be able to give an update to Lloyd's if requested to do so. Agents should note however that no self scoring submissions and no full Agent Status Reports will be required in 2013.

Those agents who, in Lloyd's opinion, do not meet the principles of the tests and standards as at 31 December 2012 will be required to continue to submit progress updates until such time as all outstanding work required to meet the principles has been completed. The frequency, format and degree of information required will be agreed individually with agents based on the amount of work remaining.

Evidence Templates

Whilst no regular submission of evidence templates will be required in 2013, agents should ensure that these are maintained and updated if material changes are made to the approach to a particular area or to the underlying policies and evidence in place. Evidence templates may be requested by

Lloyd’s as part of either individual agent follow up work or a wider thematic review process and agents should be able to supply an up to date version of any evidence template on request.

As part of the transition into business as usual, Lloyd’s is reviewing the content and format of evidence templates and considering what will be required to evidence that Solvency II requirements continue to be met. Lloyd’s will consult with the market via the LMA as part of this process.

APPENDICES

SOLVENCY II SYNDICATE TIMELINE - KEY DATES FOR 2013

APPENDIX 1

	JANUARY	FEBRUARY	MARCH	APRIL	MAY	JUNE	JULY	AUGUST	SEPTEMBER	OCTOBER	NOVEMBER	DECEMBER
QUANTITATIVE SUBMISSIONS	TPSF 10 January GQD return		VBAL 7 March SII Balance Sheet @31/12/12 IMSCR 7 March 2013 SCR Re-assessment	TPSF 4 April TPD @ 31/12/12 TPSF 11 April GQD Return		VBAL *June* LIM Asset Data Dry Run @31/12/12	IMSCR *4 July ** *Draft* SCR via LCR TPSF 11 July GQD Return		VBAL 5 Sept SII Balance Sheet @30/6/13 IMSCR *12/19Sept ** (non aligned/aligned) Final SCR via LCR	TPSF 10 October GQD return	VBAL 1 November LIM Asset Data @30/09/13	
QUALITATIVE SUBMISSIONS			GRMU 28 March ORSA Submission	GRMU 19 April Actuarial Function Report			MVAL *4 July** *Interim* Valid'n Report *(voluntary)* GRMU 12 July Model Change Report		MVAL *26 Sept ** Validation Report	DFA 25 October Board confirmation		
WORKSHOPS/ BRIEFINGS	IMSCR 16 January SCR Briefing DFA 22 & 25 Jan 2013 Planning Workshop	27 & 28 February	GRMU 19 & 20 March Use test Workshop	17 & 18 April Directors Briefing 3 & 4 April	MVAL 14 & 15 May Validation/Capital Workshop 23 & 24 May	VBAL 11 & 12 June Balance Sheet Workshop	16 & 17 July	6 & 7 August	SREP 17 & 18 Sept Reporting Workshop	GRMU 15 & 16 Oct ORSA/ Model change w'shop	12 & 15 November Directors Briefing 20 & 21	11 & 12 December

KEY: Unassigned workshop

NOTES:

(1) Boxes with a solid fill represent a hard test submission

(2) Boxes with a patterned fill represent a soft test submission

(3) A red date signifies a provisional date *(to be confirmed in Q1)*

PHASING OF SOLVENCY II WORKSTREAMS UNDER "SOFT LANDING"

APPENDIX 2

WORKSTREAM/ELEMENT		2013	2014	2015	2016	RATIONALE
INTERNAL MODEL SCR						
IMSCR	Insurance risks					Ult SCR req'd for capital setting/ I yr number soft test
IMSCR	Other risks					Ult SCR req'd for capital setting/ I yr number soft test
IMSCR	Aggregate SCR					Ult SCR req'd for capital setting/ I yr number soft test
VALUATION AND BALANCE SHEET						
VBS	Valuation of assets & liabilities (excluding technical provisions)					required to use SII models for capital setting
TECHNICAL PROVISIONS AND STANDARD FORMULA						
SFSCR	Standard formula SCR					Caveat re pot'l data requests from FSA/EIOPA
TP	Valuation process					Full Solvency II TPs meeded
TP	Valuation methodology					Full Solvency II TPs meeded
TP	Data					Apply to current level/standards
TP	TP Assumptions					Apply to current level/standards
TP	Validation					Apply to current level/standards
MODEL VALIDATION						
SQS	Probability distribution forecast and risk ranking					L1 aligns with ICAS principles - L2 addtl granularity
SQS	Methodological adequacy					L1 aligns with ICAS principles - L2 addtl granularity
SQS	Methodological consistency and credibility					L1 aligns with ICAS principles - L2 addtl granularity
SQS	Assumptions					L1 aligns with ICAS principles - L2 addtl granularity
SQS	Data directory and data policy					Aligns with ICAS principles - some addtl
SQS	Dependencies					L1 aligns with ICAS principles - L2 addtl granularity
SQS	Risk mitigation techniques					L1 aligns with ICAS principles - L2 addtl granularity
SQS	Fincl gtees and options, future mgmt actions and non cont pymts					L1 aligns with ICAS principles - L2 addtl granularity
CVP	Calibration					Reconciliation of I year and ultimate SCR
CVP	Validation					Solv II process should continue/system maintained
CVP	Profit and loss attribution and backtesting					backtesting under ICAS- defer P&L
CVP	Model robustness and stress and scenario testing					L1 aligns with ICAS principles - L2 addtl granularity
EMD	External models and data					In scope & validation requirements - Cat & ESG
GOVERNANCE, RISK MANAGEMENT AND USE						
SOG	General governance requirements					Already BAU/good risk mgmt practice
SOG	Fit and proper					Already BAU/good risk mgmt practice
SOG	Risk management					Already BAU/good risk mgmt practice - RMF addtl
SOG	Internal control					Already BAU/good risk mgmt practice
SOG	Internal audit					Already BAU/good risk mgmt practice
SOG	Actuarial function					Required to support TPs but not UW/RI til 2016
SOG	Outsourcing					Already BAU/good risk mgmt practice - some addtl
MSG	Risk coverage					Aligns with ICAS principles - some addtl
MSG	Use test					partial ICAS requirement - significantly increased
MSG	Model governance					Solv II process should continue/system maintained
MSG	Model change policy					Solv II process should continue/system maintained
ORSA	ORSA process					Solv II process should continue/system maintained
ORSA	ORSA documentation					Solv II process should continue/system maintained
ORSA	ORSA outcomes					Solv II process should continue/system maintained
REPORTING AND DISCLOSURE						
SREP	Supervisory reporting and disclosure					Remain in project phase through 2013/2014
DOCUMENTATION AND FINAL APPLICATION						
DOC	Documentation process					Solv II process should continue/system maintained
DOC	Design and operational details					Aligns with ICAS principles - some addtl
DOC	Theory, assumptions, mathematical and empirical basis					Aligns with ICAS principles - some addtl
DOC	Circumstances where the model does not work effectively					Aligns with ICAS principles - some addtl
DOC	Model change documentation					Solv II process should continue/system maintained
APP	Final application pack					Further final applic may be needed pre implem'n

- Required to current level -ICAS/Solv1/Lloyds min standards *(Solv II development to continue)*
- Full Solv II hard requirement - must meet standards with full formal submissions as appropriate
- Solv II soft requirement - should be operational and Lloyd's will review submissions and provide feedback/guidance
- Solv II slow down/remains in "project" status
- n/a