LLOYD'S

SOLVENCY II & RISK ASSURANCE

2014 GUIDANCE NOTES

JANUARY 2014

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INTRODUCTION

Purpose

This guidance document provides information on Lloyd's ongoing approach to the implementation of Solvency II, the proposed 2014 Solvency II and Risk Assurance timetable, and the expectations placed on managing agents for 2014 during the current soft landing approach.

Lloyd's introduced the soft landing approach in 2013 in response to the uncertainty around the Solvency II timetable. Under this approach, quantitative requirements continue to apply to support the use of Solvency II models for capital setting purposes, whilst qualitative requirements are being phased in from 2013 to 2015. This allows agents to develop and enhance value added activities and helps avoid the risk of wide disparity in the development of approaches across the market. It also ensures that Lloyd's maintains visibility of progress on embedding and use of key Solvency II processes, and ensures efficiency of review work ahead of full Solvency II implementation.

Solvency II Update

There is increased political will and pressure being applied within the European Union (EU) to conclude the Solvency II project. This makes a start date for the full implementation of Solvency II of 1 January 2016 increasingly likely. Agreement on Omnibus II has now been reached between the European Commission (EC), Council and Parliament. However, final ratification by the European Parliament (plenary vote) is not expected until early 2014. In the meantime, the EC has proposed a 'Quick Fix 2' Directive which will formally postpone the Solvency II implementation date to 1 January 2016. Lloyd's therefore continues to assume a 1 January 2016 implementation date, but agents should note that this could, despite the EC's stance, still be subject to change.

EIOPA's 'Guidelines' or Interim Measures

In the meantime, European Insurance and Occupational Pensions Authority (EIOPA) have proposed a number of interim measures as a step towards full implementation. Following consultation in Spring 2013, the final interim measures, or Guidelines, were issued by EIOPA in September 2013 to National Competent Authorities (NCAs), including the Prudential Regulation Authority (PRA). These Guidelines came in to effect on 1 January 2014. The PRA issued a supervisory statement which sets out its expectations of firms in relation to the Guidelines.

The Guidelines cover four areas which EIOPA considers fundamental to ensure effective preparation and convergence in preparations for Solvency II:

- System of governance
- Forward-looking assessment of the undertaking's own risks based on the principles for the Own Risk and Solvency Assessment
- Submission of information to NCAs
- Pre-application for internal models

Lloyd's has conducted a review of the Guidelines and the PRA's supervisory statement to assess the impact on the Solvency II programme for managing agents. The soft landing approach implemented by Lloyd's in 2013 supports EIOPA's expectation for "defined and demonstrable progression towards Solvency II by both supervisors and undertakings"[1]

Overall, we are comfortable that the Guidelines do not impose any requirements on managing agents not already covered by the Lloyd's Solvency II programme. At the September 2013 Pillar 3 market workshops, Lloyd's advised managing agents that there would be a dry run of the Pillar 3 requirements, but that the timing and extent of this would be dependent on the final EIOPA interim measures in respect of Pillar 3. The publication of the interim measures allows us to confirm that Lloyd's will be carrying out a **Pillar 3 Dry Run during Q3 2014** with a deadline for submission to Lloyd's of 25 September 2014. Further information, including details of what is to be submitted, is provided in this guidance document under "Quantitative Submissions".

Lloyd's will be carrying out a mapping exercise of the interim measures requirements against the elements of the Solvency II programme, to ensure that we are able to demonstrate to the PRA that managing agents are meeting the requirements. Whilst on the whole the interim measures do not pose any additional requirements, there are some areas where we would expect more explicit evidence in order to demonstrate how the interim measures are being met. This mapping exercise and the impact on managing agents will be discussed in more detail with agents in early 2014.

[1] EIOPA Final Reports on:

Public Consultation No. 13/008 on the Proposal for Guidelines on the System of Governance

Public Consultation No. 13/009 on the Proposal for Guidelines on Forward Looking Assessment of Own Risks (based on ORSA principles)

Public Consultation No. 13/010 on the Proposal for Guidelines on Submission of Information to National Competent Authorities

Public Consultation No. 13/011 on the Proposal for Guidelines on the Pre-application for Internal Models

LLOYD'S APPROACH DURING 2013 AND 2014

Capital Setting for 2014 YOA

Agents' Solvency II internal models and the Solvency Capital Requirements (SCR) output from them were successfully used during 2013 to meet ICAS requirements, and to set capital for the 2014 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 2014 for the 2015 year of account.

During 2013, Lloyd's made some changes to the way the Corporation supports the market's annual business planning and capital setting process. Previously, the business planning and capital setting processes have been handled separately. The changes still see each element handled by the relevant technical experts in the Corporation, but approval of business plans and capital is brought together as part of a new Capital and Planning Group (CPG).

In order to reach an ICAS equivalent capital level, a Solvency II balance sheet at 31 December 2013 and 30 June 2014 will be required. Further information is provided in this guidance document in the "Quantitative Submissions" section.

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

Risk Assurance update

The Risk Assurance Function (RAF) was formed in January 2013 as the focus of the Solvency II account manager team moved towards assessing agents' on-going Solvency II compliance in a BAU environment, as well as co-ordinating a broader risk oversight view of agents across all Lloyd's minimum standards. The RAF aims to provide a clear framework within which all managing agents are expected to operate, and a clear control framework for Lloyd's which demonstrates robust oversight of the market.

There are a number of elements to achieving sufficient and robust market oversight:

- A clear framework to demonstrate sufficient oversight and governance to the PRA to maintain LIM approval. This includes:
  - A clear view of an agent against all requirements at any point in time
  - Assurance that sufficient risk based review activity is conducted across all agents and standards
- One set of standards covering the minimum requirements for managing agents. These will clarify which requirements are regulatory and which are Lloyd's specific. These standards will align with the new Solvency II requirements. This will provide consistency in interpretation, presentation and publication of the standards.
- Transparency in Lloyd's review processes and outcomes to allow clear internal sharing of views and outcomes, with clear linkage between decision making forums and Lloyd's' overall view on an agent. In addition, this provides clarity to the market on Lloyd's planned review work and market wide findings.

The RAF was formed in order to implement these processes across Lloyd's. In a target operating environment, the primary BAU activity of the RAF will be to ensure that sufficient assurance activity is conducted via specialist teams. This will enable Lloyd's to demonstrate robust market oversight against a revised and consistent standards framework, and to enable a clear view of an agent against all requirements at any point in time. Lloyd's will be required to authorise the use of syndicate Solvency II Internal Models for capital setting and the RAF will be a key part of this process.

Standards Assurance Group (SAG)

During 2013 some significant changes have been made to Lloyd’s internal governance structure to provide a more robust control framework. Most notably is the formation of two new decision making bodies, the CPG (as discussed above) and the Standards Assurance Group (SAG). The key responsibilities of SAG are:

- to assess compliance with Solvency II internal model tests
- to authorise the use of syndicate Solvency II Internal Models for capital setting & provide input to CPG
- in a Solvency II live environment, to authorise syndicate major model changes
- to assess agent compliance with Lloyd's Standards

The SAG is supported by the Risk Assurance Function which will work closely with technical teams to ensure Lloyd’s has a co-ordinated view of each agent’s compliance with Lloyd’s standards.

Lloyd’s Minimum Standards refresh

In order to ensure a clear framework is established, a refresh of Lloyd’s minimum standards is being undertaken. The current minimum standards are being reviewed to ensure that all current standards are up to date, whilst additionally incorporating the new Solvency II requirements (into new standards where relevant). The aim is to make the presentation of standards more consistent and user friendly for the market. Primary objectives of this project have been to:

- provide one set of standards covering all requirements
- provide clarity on regulatory versus Lloyd’s requirements
- ensure inclusion of Solvency II requirements
- provide consistency in interpretation, presentation and publication

Work began in 2013 to progress this in conjunction with the newly formed LMA Risk Assurance Committee. During 2013 and 2014, Lloyd’s has issued and will continue to issue all re-drafted standards for full market consultation allowing agents to provide feedback, and challenge before sign off.

We have timetabled the project with a go live date of 1 July 2014, however agents are not expected to be fully compliant with the new standards until January 2015.

Self-assessments in 2014 and beyond

Over the last few years agents have been asked to complete self-assessments against Solvency II requirements and also against a number of the current Lloyd’s minimum standards. Lloyd’s considers agent self-assessments to be a key tool in monitoring ongoing compliance with requirements, and from the feedback received at the Risk Assurance market workshops held in July 2013, it is clear that agents also believe the process to be useful.

It is the intention that over the next two to three years, agents will conduct self-assessments against all minimum standards. Lloyd’s is therefore developing a process internally to ensure that the way that self-assessments are reviewed by Lloyd’s is consistent across all technical teams. In doing so, we have brought together best practice from various teams at Lloyd’s in order to create a consistent and effective self-assessment review process.

The new process is focused on achieving the following objectives:

- To establish whether managing agents are, by their own assessment, meeting Lloyd's Minimum Standards, and to identify standards which they believe are not being met
- To provide a baseline against which Lloyd’s technical teams can test when carrying out further assurance activities
- To ensure managing agents can provide a satisfactory description of how they meet the minimum standards and requirements
- To agree satisfactory action plans to address any identified gaps or failings
- To reinforce that managing agents are required to carry out regular assessments of their compliance with Lloyd’s minimum standards and that the Senior Nominated Person (SNP), is responsible for providing oversight of this process.

During 2014, there is a workshop scheduled in July to launch the new Minimum Standards and to provide further detail on the approach to self-assessments against the standards.

REVIEWS AND RATINGS IN 2014

Full Solvency II tests and standards

As set out previously, Lloyd's does not intend to enforce 100% compliance against 100% of the tests and standards at this point in time. Agents should note however that, as the January 2016 Solvency II "go-live" date becomes more certain, Lloyd's expects that agents should refocus their efforts on their Solvency II programmes in 2014. Lloyd's expects to make its Lloyd's Internal Model (LIM) IMAP submission to the PRA during the spring of 2015. The successful implementation of Solvency II and approval of the LIM remains critical to maintaining Lloyd's competitive advantage. A key element of the Lloyd's application to the PRA is syndicate compliance with Solvency II requirements and it is therefore in the interest of the market as a whole that no one syndicate, or group of syndicates in aggregate, prejudice Lloyd's obtaining that approval. The expectation on managing agents therefore, is that all syndicates are expected to be able to demonstrate that they have an internal model which meets the full Solvency II tests and standards by the end of 2014.

There is no agent that we currently regard as meeting the full Solvency II tests and standards and therefore Lloyd's expects that all agents continue to show progress in working towards full Solvency II compliance through 2014.

In order for agents to focus their efforts appropriately during 2014, it is important that Lloyd's has an agreed position with each individual agent which clearly states the areas where Lloyd's believes work remains outstanding ahead of full Solvency II implementation. During January and February 2014, Account Managers will meet with all agents to discuss in detail the areas where Lloyd's believes further work is required before full Solvency II tests and standards can be met. Agents will then have the opportunity to provide Lloyd's with an action plan setting out how these areas will be addressed. We would expect these action plans to cover, as a minimum, the resources required (from both a project and technical perspective), expected timeframes, the level of board engagement, and the evidence that will be available to demonstrate that the issues have been addressed. These action plans will be reviewed by Lloyd's during March 2014 and a new agent rating will be issued. This will be based on the number and materiality of areas outstanding, as well as the level of comfort that Lloyd's has that the agent will be able to demonstrate compliance with full Solvency II tests and standards by the end of 2014.

The criteria used to rate agents will be as follows:

RED	A significant number of, or significant materiality of, areas outstanding and agent is unable to demonstrate that they will be able to meet the tests and standards during 2014 At immediate risk of prudential measures being applied
AMBER	A number of areas outstanding, or material areas outstanding, and agent is at risk of not meeting tests and standards unless remedial action is taken At risk of prudential measures being applied if remedial action is not taken and evidenced
GREEN (ON TRACK)	Agent will meet tests and standards provided action plan is adhered to and progress can be evidenced No current risk of prudential measures being applied
BLUE FLAG	Agent meets all full tests and standards

Lloyd's expects that the level of PRA review and interaction with both Lloyd's and the market on Solvency II will increase in 2014. Agents who are rated Amber and Red can expect increased scrutiny during 2014 to ensure that efforts are focussed on the outstanding areas.

Prudential Measures

During summer 2014 Lloyd's will be reviewing Syndicates' 2015 YOA Business Plans and LCR submissions, and agents' new Solvency II ratings will be provided to the CPG to be taken into account as part of the CPG's deliberations. Where Lloyd's is not satisfied that sufficient progress has been made, the CPG will consider applying prudential measures, including capital loadings and underwriting restrictions. Any agent at risk of having prudential measures applied will be notified in writing with required actions clearly set.

Interim Measures (Guidelines)

Lloyd's will not be rating agents against the Guidelines in 2014, however Lloyd's does need to be able to demonstrate to the PRA that managing agents are meeting the Guidelines.

Account Managers will be discussing with managing agents on a case by case basis any areas where in our view, the Guidelines are not being demonstrably met in order to agree what further evidence and/or review work is required. This will help both Lloyd's and agents focus on the key areas that need to be addressed. Any work outstanding against the Guidelines will need to be addressed as soon as possible, and Account Managers will discuss timeframes with managing agents individually.

Evidence Templates

During January 2014, Lloyd's has undergone a review of the Solvency II Programme to establish whether the depth and breadth of the review work carried out to date provides sufficient evidence of agents' overall progress in meeting Solvency II tests and standards. The conclusion of this review is that there are a small number of elements of the Solvency II programme where the evidence that we hold may not completely reflect the current approach. Agents will therefore be required to submit certain sections of some evidence templates in order to ensure that the evidence that Lloyd's holds is relevant. Further detail is provided in this guidance document under "Qualitative Submissions".

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. 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 (through the SNP) is also responsible for notifying Lloyd's as soon as possible if any of the conditions for compliance cease to be met.

Lloyd's will require a Board confirmation of Solvency II status to be submitted in December 2014. Lloyd's will review and evaluate all submissions to determine each agent's final Solvency II rating and these ratings will form a key part of the LIM IMAP submission in spring 2015. Lloyd's will provide further detail on the format of the submission to the market by the end of August 2014.

2014 TIMETABLE AND DELIVERABLES

Phased schedule

Given the current expectation on managing agents to be Solvency II compliant by the end of 2014, the phased timetable introduced previously is no longer applicable. However the impact to managing agents is not significant, given that according to the phased timetable the majority of elements within the Solvency II programme were expected to be “full Solvency II hard requirements” by the end of 2014. For the areas which remained as being “required to current level – ICAS/ Solvency1/Lloyd’s Min Standards”, Lloyd’s believes that required standards are sufficient to demonstrate Solvency II compliance during 2014.

Timetable

The proposed timetable for 2014 can be found in **Appendix 1** and includes all capital and Solvency II related deliverables required throughout the year. In addition, this year the timetable also includes Risk Assurance related activity and deliverables. The timetable also shows allocated workshops and briefing sessions as well as additional dates which have been provisionally reserved for further sessions. 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
2014 SCR Re-assessment	6 March	Director sign off on behalf of the Board
SII Balance Sheet @ 31.12.13	6 March	Two directors on behalf of the Board, to include the Finance Director
LIM Asset Return @ 31.12.13 (via QAD)	20 March	Director sign off on behalf of the Board
ORSA	27 March	Full Board sign off
TPD Return as at 31.12.13	3 April	Director sign off on behalf of the Board
Actuarial Function Report	1 April – 30 May	Signed by Actuarial Function - Report to the Board
Standard Formula SCR	30 May	Director sign off on behalf of the Board
Evidence Templates	27 June	SNP sign off
Draft SCR submission	3 July*	Full Board sign off
Validation Report *(voluntary submission)*	3 July*	Signed by Validator – Report to the Board
Model Change Policy & Report	3 July*	Policy – Board approved Report – Board awareness
SII Balance Sheet @ 30.06.14	4 September	Two directors on behalf of the Board, to include the Finance Director
Final SCR submission	16 September*	Full Board sign off
Model Change Report	16 September*	Board Awareness
Validation Report	16 September*	Signed by Validator – Report to the Board
Pillar 3 Dry Run	25 September	Board awareness
LIM Asset Return @ 30.9.14 (via QAD)	30 October	Board Awareness
Confirmation Statements on SII Status	12 December	Full Board sign off

* *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

On the same basis as for the 2014 year of account, Lloyd's will require both the one year regulatory 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 as at 31 December 2013 and 30 June 2014, as described below.

The one year regulatory SCR number is required for the Lloyd's Internal Model (LIM) calibration and the SCR review process.

Two new quantitative returns will be required for 2014: a Standard Formula SCR calculation in May and a Pillar 3 Dry Run in September.

During 2013, the PRA carried out a number of ad hoc data collection exercises from syndicates. As far as possible, Lloyd's aims to achieve the most pragmatic way of providing this data to meet PRA requirements whilst minimising the workload for managing agents. Lloyd's is unable to include these requests into the 2014 timetable for quantitative submissions, but agents should be aware that there may be similar ad hoc data requests from the PRA during 2014 over and above the scheduled submissions.

Further detail on quantitative returns required during 2014 is provided below.

Standard Formula SCR – due 30 May (new for 2014)

A standard formula (SF) exercise will be conducted in the market in 2014 as at 2013 year-end. Following the exercise at 2011 year-end in which Lloyd's collected relevant data from the market, EIOPA subsequently published the technical specifications to the Long Term Guarantee Assessment. This sets out the basis and calculation to be used for the derivation of the SF SCR and MCR. In 2013 Lloyd's used the above data to estimate a 2012 year-end SF SCR in line with the above requirements and by rolling each risk component forward using relevant exposure measures.

For the 2013 year-end exercise in 2014, Lloyd's will produce a calculation template in line with its understanding of the above requirements, this will be published by the end of February 2014. The calculation template is likely to require similar inputs to the data template used at 2011 year-end. This calculation template will allow agents to derive the SF SCR and MCR in respect of their syndicate(s). Lloyd's will collect this information by the end of May 2014 and produce feedback by the end of August.

Pillar 3 Dry Run - due 25 September (new for 2014)

As set out earlier in this document, the publication of the final Guidelines in September 2013 imposes a number of Pillar 3 reporting requirements for 2015. In order to assist managing agents to prepare for compliance and progress their Pillar 3 preparations in general, there will be a syndicate Pillar 3 dry run in Q3 2014, with a deadline for submission to Lloyd's of 25 September 2014.

Following feedback from the industry, EIOPA has moderated the Guidelines in respect of Pillar 3. However these are still extensive and create a number of requirements which will be applicable **during 2015**, as summarised below:

1. Completion of annual reporting as at 31 December 2014:
    - Quantitative reporting covering the balance sheet, assets and liabilities by currency, list of assets, open derivatives, technical provisions, own funds, SCR and MCR
    - Narrative reporting on system of governance, capital management, valuation for solvency purposes and reporting policy
    - Deadline 22 weeks after year end for reporting to the supervisor, two more weeks than originally proposed. There will be a shorter deadline for syndicates to Lloyd's, currently anticipated as 14 weeks after the year end. This is because Lloyd's shall need time to

review syndicate returns, aggregate them and add data on Lloyd's central assets, funds at Lloyd's etc.

- The requirement for IMAP firms (including Lloyd's syndicates) to complete seven templates regarding the standard formula SCR has been dropped, instead this will be addressed through the IMAP process as previously envisaged.

2. Completion of one quarterly reporting exercise at 30 September 2015 (the 31 December 2015 quarterly reporting exercise has been dropped):

   - Quantitative reporting covering balance sheet, list of assets, open derivatives, technical provisions, own funds and MCR.
   - Deadline 8 weeks after quarter end (5 weeks after the quarter end for syndicates to Lloyd's for the reasons as described above.)

For the Pillar 3 Dry Run, agents should note that the quantitative requirements will be based on those contained in the Guidelines for annual reporting and there shall be no qualitative reporting dry run. Data to be submitted for the dry run will be as at year end 31 December 2013 and agents shall be asked to submit the data using the Solvency II returns provided on the Core Market Returns (CMR) website. Completion of the dry run shall be on a 'best efforts' basis. A senior person at the managing agent will be expected to have reviewed the submission for reasonableness but no formal Board sign-off shall be required.

Lloyd's will provide:

- Instructions to agents on the dry run requirements by June 2014
- Dry run workshops to agents on 3 and 4 June 2014
- Further workshops providing feedback to agents on 24 and 25 November 2014 as well as individual feedback to agents by then.

As previously advised to agents, Lloyd's has provided detailed guidance on the latest draft Pillar 3 reporting templates as they would apply to syndicates. A link to the guidance and templates may be found here.

As noted above, instructions for the dry run shall be provided by June 2014. However it is anticipated that the following templates from the Annual Solvency Return (ASR) and Annual Asset Return (AAD) shall be required to be submitted in the dry run:

Balance sheet	ASR002
Assets and liabilities by currency	ASR260
List of assets	AAD230
List of open derivatives	AAD233
Life technical provisions	ASR280/281
Health technical provisions	ASR283/284
Non-life technical provisions	ASR240/241/242
Own funds	ASR220
SCR internal model	ASR522
MCR	ASR510/511

The draft CMR systems for Pillar 3 including ASR and AAD continue to be available to managing agents for user acceptance testing via the CMR web portal. Details of the logistics of the dry run submission shall be included in the instructions to be published by June 2014.

Although as advised above Lloyd's shall not be conducting a qualitative dry run, Lloyd's shall provide further guidance on the qualitative requirements including an illustrative example by June 2014.

2014 SCR Re-Assessment – due 6 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 6 March 2014.

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 CMR. For these purposes, materiality may be assessed as a movement of more than 10% in the aggregate SCR to ultimate, excluding FX and risk margin movements for the whole syndicate. Note that Lloyd's will update all member capital ECAs for these latter items. 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 2014 SCR guidance document via the link below:

Link to Re-assessment instructions and Guidance

TPD Return as at 31 December 2013 – due 3 April

The TPD return as at 31 December 2013 is required to be submitted on 3 April 2013. This return must be submitted via the CMR system and full instructions are available on the site.

GQD Return - Quarterly

The GQD return is required to be submitted on a quarterly basis throughout 2014. 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 3 July & 16 September*

As in 2013, 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* 2015 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 agreed 2014 ultimate SCR and this can be included as part of the Model Change Report due on 3 July.
- A *final* 2015 SCR in September which should be accompanied by an analysis of change document covering any changes from the July submission. The submission date for both aligned and non-aligned syndicates is 16 September.
- Agents should note that these dates are currently still provisional and the format and timing of capital submissions are under discussion with the LMA. The LCR will continue to include consideration of both the one year regulatory SCR and "SCR to ultimate". Both the timetable and any changes to the format of the LCR will be subject to consultation, then finalised and communicated to the market by the end of February 2014.

Solvency II Balance Sheet

As part of the planned capital setting process for 2015, Lloyd's will require all agents to submit a full Solvency II balance sheet both as at 31 December 2013 and 30 June 2014. This submission is 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 is 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.

Solvency II balance sheet at 31 December 2013 – due 6 March

The QMC for 31 December 2013 must be submitted to Lloyd's by 6 March 2013. Along with QMC002 and QMC210, a managing agent's report (QMC910) must also be provided. The 31 December 2013 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 on the Solvency II Technical Provisions. However, the margin claimed in the earned reserves must not exceed that provided by the signing actuary. This is covered in more detail as part of the wider SAO process.

The 31 December 2013 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.

Solvency II balance sheet as at 30 June 2014 – due 4 September

The QMC for 30 June 2014 must be submitted to Lloyd's by 4 September 2014. As for the 31 December 2013 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.

In order to seek to minimise the workload of managing agents in this respect, Lloyd's is reviewing the seasonal impact of data as it affects the 30 June Solvency II balance sheet and how this inter-relates to the annual 'SCR to ultimate' assessment with a view to seeing if the mid year data collection can be simplified. Lloyd's shall update managing agents when further progress has been made on this work.

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 2013** – due by 20 March 2014
- **As at 30 September 2014** – due by 30 October 2014

LIM Asset returns are made via the QAD. Submissions must be made via the CMR system and managing agent's sign-off is required. Submission files and formal guidance were issued by Lloyd's during October 2013 and are available via the following link:

Link to submission files and Guidance

Qualitative submissions

Qualitative requirements will continue to apply to at least current ICAS, Solvency 1 or Lloyd's Minimum Standards level. Under the "soft landing" approach, Lloyd's considers that some key valuable Solvency II processes should continue to be run on a soft test basis in 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, including the related contribution to the risk management function. As was the case in 2013, no opinion on underwriting or reinsurance will be required for the 2014 submission, although this is encouraged.

Submissions will be required from agents to support the running of these processes. Further detail on the submissions themselves is provided below. Agents will be required to run these processes according to the policies they have in place and in line with their current operating models. 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.

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.

ORSA Report – due 27 March

Lloyd's require all agents to submit their latest ORSA report by 27 March 2014. ORSA submissions are made on a soft test basis and Lloyd's will review and provide feedback on submissions in Q2 2014. Lloyd's review will also take into account how the interim measures requirements are covered in agents' ORSA submissions.

Syndicate ORSA report(s) to be submitted in 2014 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 2014 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 2014 submitted SBF)
- Incorporate any feedback provided by Lloyd's on previous ORSA submissions

Agents should note that, as for 2013, Lloyd's wishes to collect some additional information via the ORSA report in 2014 where available as detailed below.

<u>Market Upturn Event</u>

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.

Agents should also note that as in 2013, an affirmation of the ORSA, or an update to reflect any changes, will be required as part of the 2015 SBF process. Further details of this will be provided within the 2015 SBF Guidance document.

Link to previous ORSA Guidance

Actuarial Function Report – due between 1 April – 30 May

For 2014, the Actuarial Function Report submissions will again be made on a soft test basis and need only cover the requirements relating to Technical Provisions, including the related contribution to the risk management function. Agents should ensure that this submission addresses the feedback provided to them by Lloyd's following the review of the 2013 submissions. As was the case for the 2013 submissions, no opinion is required on underwriting or reinsurance in 2014. However, as set out earlier in this guidance document, agents are now expected to be able to demonstrate compliance with full Solvency II tests and standards by the end of 2014, and therefore agents are *strongly encouraged* to include this in the Actuarial Function Report submission.

In light of the retrospective nature of the report, we recognise that it may not be possible to include an opinion on underwriting or reinsurance in the report submission in April and May, and therefore we encourage agents to provide this to Lloyd's at a later stage during the year. This could be provided, for example, following agents' 2015 YoA planning, but in order to review them, we would ask that they are submitted by no later than 28 November 2014. Review and feedback of these components will be provided in the same way as Actuarial Function Report feedback has previously been provided by Lloyd's. For those agents choosing not to / are unable to submit an underwriting or reinsurance opinion in 2014, Lloyd's will be unable to attest that they are meeting the full tests and standards regarding the Actuarial Function. For these agents, a full Actuarial Function report will need to be submitted in 2015, and agents should note that the timetable for submissions in 2015 is likely to be during Q1 2015.

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 Policy & Report – *provisional dates 3 July & 16 September, additional submission dates to be confirmed*

As was discussed at the November 2013 workshops on Model Change, Lloyd's is currently considering what model change submissions will be required during 2014, in order to best prepare Lloyd's and the market for a full dry run in 2015, and a satisfactory "go-live" environment in 2016. Further feedback, guidance and detail on 2014 model change submissions, will be provided to agents during Q1 2014.

Validation Report – *provisional date 16 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 2014. 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 in September 2013. The final timing of this submission will be confirmed as part of the market consultation on the SCR submission dates.

Interim July submission – provisional submission date 3 July

As was the case in 2013, an interim validation report can be submitted with the draft SCR on 3 July. This is a voluntary additional submission and is not mandatory and does not remove the need to submit a full validation report. 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 interim validation reports submitted on 3 July and provide feedback to agents to allow any issues to be addressed in the final report.

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 12 December

Lloyd's will require a Board confirmation of Solvency II status in 2014 which will be reviewed and evaluated to form part of the LIM IMAP submission in spring 2015. Lloyd's will consult with the market through the LMA during the first half of 2014 on the format and content of this confirmation and will provide further detail and the required wording to agents by the end of August 2014.

Evidence Templates – due 27 June

During January 2014, Lloyd's has undergone a review of the Solvency II Dry Run to establish whether the depth and breadth of the review work carried out to date provides sufficient evidence of agents' overall progress in meeting Solvency II tests and standards. As such, there are a few elements of the Solvency II programme where the evidence that we hold may now have been superseded. Lloyd's is therefore requesting that agents submit certain sections of some evidence templates in order to ensure that the evidence that we hold is relevant. Note that Lloyd's is not requesting that all Evidence Templates are resubmitted, but that only the following sections will be required:

MVAL Workstream

- Data Directory and Data Policy

GRMU Workstream

- General governance requirements
- Fit and proper
- Risk management
- Internal control
- Internal audit
- Outsourcing

Documentation Workstream

- Documentation process
- Design and operational details
- Theory, assumptions, mathematical and empirical basis
- Circumstances where the model does not work effectively

Lloyd's review of the Evidence Templates will focus on the content of the templates, and whether sufficient detail has been provided in order to demonstrate how the relevant Solvency II requirement has been met. Note that the Lloyd's review will not focus on the way in which the templates have been completed and red/ amber/ green ratings will not be given as was previously the case.

Lloyd's will confirm the required format of the Evidence Templates to the market by no later than end March 2014.

Thematic Reviews

Profit & Loss Attribution & Backtesting – Q1 (new for 2014)

The purpose of the profit & loss attribution test is to ensure that the internal model captures the main sources of profit and loss facing the firm. It is also an important element in establishing use of the model. Managing agents are required to reconcile actual profits/ losses booked with the output of the internal model to the extent that the model should be able to categorise risk into the main drivers of the syndicate's profit and loss statement. This could be considered as a special form of back-testing of actual results against model risk categories in addition to demonstrating that the outcomes in respect of individual risks are within an expected range of outcomes.

If there is a source of profit / loss which is not captured by the model then this suggests a model deficiency and requires investigation and possible model revision. Profit & loss attribution is therefore also a specific validation test of the internal model. Accordingly, managing agents must evidence a clear process for board escalation where profit and loss attribution is not effective, along with the next steps required to resolve any model shortcomings.

In early 2013, agents were requested to submit their approaches to Profit &Loss Attribution in order for Lloyd's to assess whether agents were meeting the principles of SII tests and standards. To build on this work, in 2014 agents will be required to submit their outputs from the Profit &Loss Attribution and backtesting exercise. Lloyd's will undertake a thematic review of these submissions during Q1 2014.

Agents will be contacted individually in early 2014 with further detail on what information should be provided to Lloyd's' to carry out this review.

Use Test – Q4

Following on from Use Test reviews conducted in 2012 and 2013, Lloyd's plans to carry out a similar review in Q4 2014. Further detail on the scope and coverage of this review will be provided during the course of 2014.

Workshops

The schedule of workshops planned for 2014 is set out in the timetable at **Appendix 1.** During the Dry Run, workshops have mainly covered Solvency II elements. For 2014 and beyond, whilst workshops focussing on elements of Solvency II will continue, the timetable now also includes workshops which cover wider Risk Assurance activities. There will therefore be a workshop in July 2014 which will cover minimum standard self-assessments and minimum standard updates.

APPENDICES

KEY DATES FOR 2014

APPENDIX 1

	JANUARY	FEBRUARY	MARCH	APRIL	MAY	JUNE	JULY	AUGUST	SEPTEMBER	OCTOBER	NOVEMBER	DECEMBER
SOLVENCY II QUANTITATIVE SUBMISSIONS	14 January Q4 2013 GQD return		6 March SII Balance Sheet @31/12/13 6 March 2014 SCR Re-assessment 20 March LIM Asset Data @31/12/13	3 April TPD @ 31/12/13 10 April Q1 2014 GQD Return	30 May Standard Formula SCR		*(provisional) 3 July* *Draft* SCR via LCR 10 July Q2 2014 GQD Return		4 Sept SII Balance Sheet @30/6/14 *(provisional) 16 Sept* Final SCR via LCR 25 Sept SREP Pillar 3 Dry Run	9 October Q3 2014 GQD return *30 October* LIM Asset Data @30/09/14		
SOLVENCY II QUALITATIVE SUBMISSIONS			27 March ORSA Submission	1 April to 30 May Actuarial Function Report (April–May)		27 June Evidence Template Submissions	*(provisional) 3 July* Voluntary Interim Validation *(provisional) 3 July* Model Change Policy & Report		*(provisional)* 16 Sept Validation Report *(provisional)* 16 Sept Model Change Report			12 Dec Board confirmation of SII status
SOLVENCY II THEMATIC REVIEW		P&L Attribution & Backtesting (February–March)								Use test review (October–December)		
RISK ASSURANCE/ MINIMUM STANDARDS										PMD Underwriting & Claims Standards Self Assessment		
WORKSHOPS/ BRIEFINGS	21 January Capital briefing 7 & 8 January	25 February SNP briefing 11 & 12 February	11 & 12 March 25 March	1 & 2 April Director briefing 22 & 23 April	6 & 7 May Validation/ Capital 13 & 14 May	3 & 4 June VBAL/ SREP 24 & 25 June GRMU workshop	1 & 2 July Standards launch & self-assessment guidance 21 & 22 July		9 & 10 Sept GRMU workshop - Model change	13 & 14 October Director briefing	24 & 28 Nov VBAL/ SREP 11 & 12 Nov	15 & 16 Dec 2015 planning 10 December

KEY: Unassigned workshop