LLOYD'S

SOLVENCY II & RISK ASSURANCE

GUIDANCE NOTES

JANUARY 2015

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INTRODUCTION

Overview

2015 is a transitional year as Lloyd's moves from delivery of the Solvency II project into the Business As Usual (BAU) environment and the implementation of its new Market Oversight Framework (incorporating the refreshed Minimum Standards).

In essence, 2015 will be a full calendar year dry run exercise in preparation for the actual start date of the new Solvency II regulatory environment on 1 January 2016. Apart from the Pillar 3 exercise in Q3 2015, all Solvency II reviews will be based on the submissions and processes that will exist in the live environment, together with specific managing agent follow up where gaps exist in compliance.

The new market oversight framework will continue to be embedded. The refreshed Minimum Standards published in July 2014 and effective 1 January 2015 form a key component of this oversight framework.

Purpose

This document provides information on Lloyd's ongoing approach to ensuring agents' compliance with the Solvency II Requirements, the proposed 2015 Solvency II and Risk Assurance timetable, and the expectations placed on managing agents for 2015 during the final year of dry run.

Solvency II Update

It is confirmed that the Solvency II regime will be implemented from 1 January 2016, with the passing of the Omnibus II Directive (OMD II) by the European Parliament in 2014. OMD II confirms the high level legislative framework, including the Solvency II start date and certain transitional measures, by making modifications to the original Solvency II Directive.

The next step in the completion of the legislative framework is the finalisation of the Level 2 measures, now known as Delegated Acts. The final text of these is currently being considered by the European Parliament. Finalisation (i.e. adoption by the European Parliament) and publication of these is expected in early 2015.

Finally, the European Insurance and Occupational Pensions Authority (EIOPA) is completing its work on drafting the Level 3 measures, which will take the form of Implementing Technical Standards (ITS) and Guidelines. EIOPA has already issued Guidelines on provision of information to national supervisory authorities, which among other things introduces interim quantitative and Pillar 3 reporting as at 31 December 2014.

REVIEWS AND RATINGS IN 2015

Rating timelines

All agents have had their Solvency II ratings confirmed as part of November 2014 coming-into-line process. These ratings took into account the position on specific gaps up to that point in time, as well as the completeness and credibility of plans in place to address gaps by the end of 2014.

Final ratings for all agents need to be agreed by early March 2015. There are two constraints on this timing as the ratings are critical to the Lloyd's internal model application to the PRA and also the mid-year coming-into-line process.

Sean McGovern's letter of July 2014 to Agent CEO's confirmed that all agents will be rated red or green in 2015 and any agent rated red will have a 20% capital load applied for mid-year coming-into-line. The rating confirmed in March will determine whether or not the 20% loading is applied.

All outstanding work will be considered to inform Lloyd's Standards Assurance Group's (SAG) decision on final ratings. In addition, the year-end attestations agents' submitted by 12 December 2014 will be taken into account in the rating process.

The re-rating will be undertaken in two phases. Firstly, all agents will be re-rated during the second half of January. By this point, agents should have completed all outstanding work and Lloyd's expects to have reached conclusions from any outstanding review activity. This rating will be communicated to the agent by the Risk Assurance Account Manager once it is finalised by SAG.

Agents rated red at that point will then effectively have a month within which to undertake any final remediation before the final rating is set in early March. We will be working to a tight timetable for reviews and although the final deadline for setting of mid-year SCRs is likely to be around the middle of March, there will be little or no scope for remediation work to be conducted after the end of February.

The November 2014 ratings have now been locked down and there will be no further re-rating of agents between now and the January exercise. This is a necessary step in light of the critical stage of the review process that Lloyd's has reached. It is important that SAG has the ability to apply ratings based on all outstanding work and attestations and does so consistently across the population of agents.

There are likely to be instances of amber or green agents whose rating looks unsustainable or at risk based on information that emerges in the period from now to the January rating exercise. In these cases, the rating will not formally be revised before the second half of January but any material issues identified will be discussed with agents at both working & senior levels as they emerge.

There are also likely to be instances of amber or green-rated agents who have delivered all outstanding actions before January and who would therefore like early confirmation of a final green rating. Whilst Lloyd's appreciates that individual agents might want to achieve this outcome it will not be possible due to the constraints we have placed on setting the final ratings. Lloyd's will continue to provide feedback as and when we have concluded that an agent has taken the necessary steps to meet the Solvency II tests and standards in particular areas.

Basis of final ratings

Agents are currently rated based on all aspects of SII Requirements (Pillar 1, 2 and 3).

There may be instances where agents' red ratings in January and February are driven by one or more relatively minor gaps on internal model tests and standards. Re-rating agents in January and creating a final window for remediation in February should ensure that instances of this are minimised.

Some agents have gaps in areas which are outside the core internal model tests & standards, as defined as part of the Internal Model Approval Process (IMAP) submission. In some instances, the gaps arise because it is not yet possible for agents to be in compliance (e.g. Supervisory reporting). In other cases, gaps exist in Pillar 2 areas such as Own Risk and Solvency Assessment (ORSA) or Actuarial Function Reports that have previously been subject to reviews by Lloyd's. For the January and February ratings we will take a proportionate approach in cases where agents' gaps fall outside the internal model tests & standards. For example, we would not anticipate applying a 20% prudential load in these cases, however we would reserve the right to do so if we consider the issues to be sufficiently material.

Approach beyond the IMAP submission

This is detailed in the Minimum Standards section. The mapping of the Solvency II Internal Model requirements to Lloyd's Minimum Standards has been published alongside the new Minimum Standards. Where there is a failure for an agent against a specific Internal Model requirement, this will be carried forward to their rating against the specific Minimum Standard.

New Syndicates and/or Agents Ratings

Lloyd's allows new syndicates and/or new agents 24 months in which to fully build out a Solvency II compliant internal model. Syndicates and/or agents that fall into this category will be assigned an Amber rating. Syndicates in this category will continue to be subject to the new syndicate loading through the capital approval process, however, prudential measures will not be applied to syndicates and agents in this category. The Amber rating represents the significant work that the agent needs to undertake to become Solvency II compliant but also that there is time for the agent to establish the compliant internal model. New syndicates/agents will not be allocated a green or red rating until the end of the 24 month period.

LLOYD'S MODEL CHANGE PROCESS FOR 2015

Model Change Reporting

As highlighted at the September 2014 workshops on Model Change, from the start of 2015 Lloyd's will be operating its live process, which includes the pre-approval of major model changes (including where the combination of minor changes results in a major change). In addition to the pre-approval of major changes, quarterly reporting will be required of all model changes undertaken, both major and minor. The latest version of the Board approved Model Change policy, submitted with the attestation in December 2014, is the basis on which all future changes should be managed, unless additional feedback is provided by Lloyd's post this submission.

Pre-Approval of Major Model Changes

From 1 January 2015, all major model changes (including where the combination of minor changes results in a major change) undertaken by a managing agent must be pre-approved by SAG. The template for the submission of major changes for pre-approval is included in **Appendix 2**. The information that managing agents include in this template should be sufficient for Lloyd's to consider the change without requiring additional documentation or information.

The key steps in this process are outlined below:

- Completed major change applications should be notified to the Risk Assurance Account Manager as the contact point and central liaison for major changes. Please note that Lloyd's expects agents to actively discuss planned major changes with their Risk Assurance Account Manager and the relevant Market oversight team earlier than just through the submission of the required form. This will enable Lloyd's to initiate discussions and enhance its understanding of the changes and their impact on the Solvency Capital Requirements (SCR) prior to the formal submissions. This will facilitate earlier and more valuable feedback ahead of the final SCR submissions and enable an accelerated review and decision by SAG;
- Lloyd's will use existing processes for notification of major changes where relevant e.g. SBF, SCR submissions and governance notifications but major changes of this nature should be accompanied by a version of the attached template for completeness. The approval process for these elements will not change from the current process, but will also be considered by SAG for any implication on a Managing Agent's ability to continue to meet the Solvency II tests and standards;
- Where the major change is as a result of the combination of minor changes, the same template should be used for submission for pre-approval. The information included in the template should include detail on which minor changes should be considered. If this number of minor changes is particularly voluminous, supporting documentation, in the form of the quarterly submission can also be submitted to support the application; and
- Lloyd's will endeavour to approve all major changes submitted within 8 weeks of receipt of the formal application but early engagement in the understanding of the change being made, as detailed above, should enable this process to be completed more quickly. Managing Agents should engage with their Risk Assurance Account Manager if these timescales will prove particularly problematic e.g. due to submission deadlines.

Model Platform Change

Solvency II is not an impediment to agents changing their modelling platforms. This will automatically be a major model change and should follow the process outlined above. Lloyd's would wish to be informed early in the decision making process that this is being considered so that a plan can be drawn up to allow a transition from one platform to another. As part of this process, Lloyd's would expect a parallel run of the new model with the same parameter inputs as the old model and a reconciliation of the difference between the two as part of the review and sign off process. This process will be discussed in more detail with individual agents as and when appropriate. All elements of the template included in **Appendix 2** will also need to be provided when considering a Model Platform Change.

Quarterly Reporting of all Model Changes

Further detail on the quarterly model change submissions of all changes (both major and minor) is set out in the section on Qualitative Submissions, and the template for reporting purposes is provided in **Appendix 3**, along with notes for its completion.

LLOYD'S MINIMUM STANDARDS FRAMEWORK

Overview

On 1 July 2014, Lloyd's issued its updated Minimum Standards which become effective at 1 January 2015. These are statements of business conduct required by Lloyd's. The Minimum Standards (and Principles for MS1 (Underwriting) and MS2 (Claims)) are established under relevant Lloyd's Byelaws relating to business conduct. All managing agents are required to meet the Minimum Standards and related Principles.

The Minimum Standards are supported by Requirements which represent the minimum level of performance required of any organisation within the Lloyd's market to meet the Minimum Standards. We expect agents to be able to explain how they meet the Requirements supporting each standard.

Additionally we have published guidance that supports each standard. The guidance provides a more detailed explanation of the general level of performance expected. They are a starting point against which each managing agent can compare its current practices to assist in understanding relative levels of performance. The guidance is intended to provide reassurance to managing agents as to approaches which would certainly meet the Minimum Standards and related Principles, and comply with the Requirements. However, it is appreciated that there are other options which could deliver performance at or above the minimum level and it is fully acceptable for managing agents to adopt alternative procedures as long as they can demonstrate the Requirements to meet the Minimum Standards.

The Minimum Standards and guidance can be found on Lloyds.com via the following link:

www.lloyds.com/the-market/operating-at-lloyds/lloyds-minimum-standards

Lloyd's has established 12 sets of Minimum Standards:

MS1	Underwriting Management
MS2	Claims Management
MS3	Governance
MS4	Risk Management
MS5	Scope, Change and Use
MS6	Modelling, Design and Implementation
MS7	Validation
MS8	Investment Management
MS9	Reserving
MS10	Regulatory
MS11	Conduct risk
MS12	Operating at Lloyd's

Market Oversight Framework

The new Minimum Standards form a key component of our Market Oversight Framework. This framework looks to draw together all of the review activities and submissions to Lloyd's and ensure that these are used to form an aggregate view of an agent.

Final details of the Market Oversight Framework and annual Supervisory plan will be issued in Q1 2015. The Risk Assurance plan detailed in this document and in the timetable attached forms part of the information included within the Supervisory plan, but is being issued in advance due to the importance of Q1 2015 and the Lloyd's Internal Model (LIM) application process.

Self-Assessments in 2015

A Self-Assessment exercise will be conducted for each Minimum Standard during 2014-2016. Agents will be asked to provide a view of their own compliance with the Minimum Standards, which Lloyd's teams will subsequently review and provide feedback on. The Returns will also be used by Lloyd's teams to inform the level of additional agent specific review work required.

In calendar year 2014, self-assessment submissions have been received for the following:

- MS1 Underwriting Management
- MS2 Claims Management
- MS11 Conduct Risk

During 2015, the Market will be undertaking Self-Assessments of the following areas (at present):

- MS3 Governance
- MS5 Scope, Change and Use
- MS7 Validation
- MS8 Investment Management
- MS12 Operating at Lloyd's

The Underwriting and Claims Self-Assessments submitted in October 2014 are currently under review which is due to be completed by the end of January 2015. The output of this review will determine whether a further self-assessment activity will be undertaken in 2015. The final decision on this will be communicated as part of the Market Oversight Plan which will be issued in Q1 2015. Placeholders in this respect can be found within the timetable attached at appendix 1.

The remaining Self Assessments will be conducted in 2016 (at present):

- MS4 Risk Management
- MS6 Modelling, Design and Implementation
- MS9 Reserving
- MS10 Regulatory

A brief summary of the 2015 Self-Assessment timetable is attached below:

	"Kick off" Workshop	**Self-assessment templates available in Secure Store**	**Deadline for completion and submission to Lloyd's**	**Completion of Lloyd's review of self-assessments**
MS7 **Validation**	6 February	Mid February	31 March	30 June
MS8 **Investment Management**	6 February	Mid February	31 March	30 June
MS12 **Operating at Lloyd's**	18 May	Mid May	30 June	30 September
MS5 **Scope, Change & Use**	11 August	Mid August	30 September	31 December
MS3 **Governance**	4 November	Mid November	31 December	31 March 2016

Minimum Standards and SAG ratings

Post the submission of the Lloyd's IMAP, SAG will consider agent's performance against all Minimum Standards. As detailed in the Market Oversight Framework information that has been provided to the Market, 'business as usual' activities including returns Lloyd's receive from the Market will also form an input into monitoring of Minimum Standards

If an agent believes they are not meeting a Minimum Standard, the Senior Nominated Person (SNP) should speak to the Risk Assurance account manager, in conjunction with the relevant Market Oversight teams, to agree a timetable for rectification of the minimum standard breach. The specific agreement on the action and timing of remediation will remain a discussion between the specific Market Oversight team and the Managing Agent. The promptness of this rectification may depend on whether the breach is against a Lloyd's minimum standard or a Regulatory minimum standard. SAG will consider agent ratings based on their ability to remedy the shortfall within the timescales agreed. More detail of how ratings will be applied in consideration of performance against minimum standards will be issued before CIL 2016.

PILLAR 3 REPORTING

Overall

As advised in market workshops in December 2014, there will be a number of Pillar 3 submissions required from the market as Lloyd's completes its preparations for Solvency II. These relate to requirements in respect of capital setting, compliance with EIOPA Guidelines on Solvency II (interim reporting) and a further dry run of Pillar 3 data. These are described below.

Capital setting and the Solvency II balance sheet (QMC)

As part of the capital setting process, Lloyd's will require all agents to submit a full Solvency II balance sheet both as at 31 December 2014 and 30 June 2015. 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 provides useful audit evidence for the required opinion.

Solvency II balance sheet at 31 December 2014 – due 5 March 2015

The QMC for 31 December 2014 must be submitted to Lloyd's by 5 March 2015. Along with QMC002 and QMC210, a managing agent's report (QMC910) must also be provided. The 31 December 2014 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. Agents should note that the risk margin is excluded from the audit scope.

The 31 December 2014 QMC forms and instructions are available for download from the CMR website. The 'live' QMC system is also available to agents within CMR.

Solvency II balance sheet as at 30 June 2015 – due 3 September 2015

The QMC for 30 June 2015 must be submitted to Lloyd's by 3 September 2015. As for the 31 December 2014 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.

Compliance with EIOPA Guidelines

Application of EIOPA Pillar 3 Guidelines to Lloyd's

The PRA's Supervisory Statement SS4/13 applies the requirements of EIOPA's preparatory guidelines to all PRA authorised firms falling within the scope of Solvency II. Among other things, it requires the submission of interim Pillar 3 reporting to the PRA as at 31 December 2014 and 30 September 2015. This represents a part of the UK insurance industry's preparations towards full Solvency II compliance.

Accordingly, Lloyd's will be required to submit to the PRA, quantitative and qualitative data in respect of the 'association of underwriters known as Lloyd's' in aggregate. This shall be achieved by collecting returns from managing agents in respect of each syndicate, and then aggregating this data with that held centrally in respect of the Corporation, Central Fund and members' funds at Lloyd's.

Syndicate reporting requirements

Managing agents shall be required to submit quantitative and qualitative data to Lloyd's as at 31 December 2014 and quantitative data only as at 30 September 2015, in accordance with the requirements set out below.

Quantitative data requirements

Managing agents will be required to submit quantitative data **as at 31 December 2014** and **30 September 2015.**

The data at as 31 December 2014 must be submitted using the Annual Solvency Return (ASR)/Annual Asset Data (AAD) provided within the CMR system. The returns must be submitted to Lloyd's by **16 April 2015.**

The data as at 30 September 2015 must be submitted using the Quarterly Solvency Return (QSR)/Quarterly Asset Data (QAD) within the CMR system. Some of the forms required for the 31 December 2014 submission are not required as at 30 September 2015 and are shown as 'N/A' in the table below. The returns must be submitted to Lloyd's by **5 November 2015**.

A managing agent's report will be required for each return but there is no audit requirement.

The specific forms to be submitted for the interim reporting are listed below:

Form Description	ASR Reference	QSR Reference
Balance sheet	ASR002	QSR002
Own funds	ASR220	QSR220
Non-life technical provisions by line of business – Part A	ASR240	QSR240
Non-life technical provisions by line of business – Part B	ASR241	N/A
Non-life gross best estimate by country	ASR242	N/A
Assets and liabilities by currency	ASR260	N/A
Life technical provisions	ASR280	QSR280
Life gross best estimate by country	ASR281	N/A
Health SLT technical provisions	ASR283	QSR283
Health SLT gross best estimate by country	ASR284	N/A
Minimum capital requirement – Non-life	ASR510	QSR510
Minimum capital requirement – Life	ASR511	QSR511
Solvency Capital Requirement – for syndicates on full internal models	ASR522	N/A

Form Description	AAD Reference	QAD Reference
Investment data – portfolio list	AAD230	QAD230
Derivatives data – open positions	AAD233	QAD233
Investment funds (look-through approach)	AAD236	QAD236

Qualitative data

Managing agents will be required to submit a qualitative report as at 31 December 2014 and the deadline for submission is the same as that for the quantitative reporting above (16 April 2015).

The submission must address each of Guidelines 21 to 32 (excluding Guideline 26) as set out in EIOPA's Guidelines on Submission of Information to National Competent Authorities.

The objective of the interim qualitative information is to provide the supervisor with information on the insurer's system of governance, capital management and valuation of assets and liabilities. The supervisor is interested in knowing the particular circumstances of each insurer in this respect. This is explained further in paragraph 5.14 of the PRA's SS4/13, repeated below:

'The guidelines … include information about the areas relating to the system of governance for firms and groups and capital management, in particular information on own funds and valuation for solvency purposes. The PRA expects firms to include information at a point in time, related to the submission reference date. Firms are also encouraged, where relevant, to indicate where further development is expected as part of the firm's preparations for compliance with Solvency II. The PRA is willing to engage with firms to discuss how the firm's developing Solvency II work in this area may be used to meet current regulatory requirements, or support work being done in ICAS+ or IMAP during the preparatory phase to reduce any potential for duplication.'

For syndicates, the qualitative information should be prepared in accordance with the instructions which will be published by end December 2014. The instructions tailor the requirements to Lloyd's syndicates – there will be certain Guidelines which do not or are unlikely to apply to syndicates.

As noted above, the interim qualitative reporting covers system of governance, capital management and valuation of assets and liabilities.

System of governance (Guidelines 21 to 25 and 37) – it is expected that this material will already have been prepared and maintained by managing arrangements as part of their compliance with the Pillar 2 requirements in respect of system of governance. It is not expected that agents will need to prepare 'new' material specifically for this purpose.

Capital management (Guideline 28) – this covers details regarding the own funds of the syndicate. This will generally always be Tier 1 basic own funds and explanatory information is only required if this is not the case.

Valuation of assets and liabilities (Guidelines 29 to 32) – some of these requirements relate to the Solvency II valuation rules provided by Lloyd's which are common to all syndicates. These are thus addressed at Lloyd's level and do not need to be reported at syndicate level. However some of the approaches, particularly regarding technical provisions, will be syndicate specific and analysis is required as described under each Guideline, in the instructions.

The submission of the qualitative information to Lloyd's shall be made on a freeform document which should be submitted to Lloyd's in PDF format as part of the Pillar 3 interim reporting i.e. as an attachment in ASR990.

The document should set out each Guideline as a heading. For each Guideline, there should be a brief description of how the requirements are covered. Most of the Guidelines will be covered by existing documentation maintained by the managing agent. Thus in this circumstance the brief explanation would reference the relevant supporting documents which will be provided as supporting documentation within the PDF file.

Instructions and availability of CMR system

The 31 December 2014 interim reporting forms (specifications, including validations) will be available for download from the CMR website and the instructions will be available on Lloyd's website by end December 2014. The 'live' CMR systems shall be available by end of January.

'Standalone' QAD submissions

The asset data collected in the 'standalone' QAD submissions collected in 2014 and earlier years is now collected in the submissions required for the interim reporting and a separate submission of these is now not required.

Further dry run of Pillar 3 requirements

Lloyd's considers that the dry run of some of the annual Pillar 3 requirements as at 31 December 2013, conducted during 2014, was beneficial in helping agents to prepare for the interim reporting as at 31 December 2014.

Lloyd's recommends that agents conduct a dry run of the remaining Pillar 3 annual and quarterly forms to help them complete their preparations for Solvency II. To this effect, Lloyd's is considering conducting a formal dry run of at least some of the annual reporting forms. The scope of this shall be reviewed by Lloyd's and advised to agents by 30 January 2015.

It is envisaged that the deadline for this shall be 24 September 2015. As for this year's exercise, full Board sign-off for the dry run shall not be required but a responsible individual at the managing agent (eg CFO, Financial Controller, Head of Syndicate Reporting) must review the submission for reasonableness.

Lloyd's shall provide individual feedback to agents on their submissions in Q4 2015.

Thematic review of agents' Pillar 3 preparations

Agents will be aware that they need to be finalising their preparations for Pillar 3 given that full Solvency II reporting starts at 1 January 2016. In order to assess progress with regard to this, Lloyd's intends to conduct a thematic review of this in Q3 2015. This shall assess agents' implementation progress in respect of:

- The completion of gap analysis and identification of data gaps and how they will be filled
- Implementation of IT solutions
- Review current processes and procedures in order to meet internal review and governance procedures to meet the accelerated reporting deadlines.

In preparation for this review, each agent shall be asked to submit a straightforward Pillar 3 'status' template to Lloyd's by 30 June 2015. Further guidance on this shall be provided to managing agents by 31 March 2015.

Pillar 3 market workshops

Further Pillar 3 market workshops are envisaged for 2015, as set out below:

- In June 2015 to provide feedback on the 31 December 2014 interim reporting and consider the dry run planned for Q3 2015.
- In October 2015 to provide feedback on the thematic review of agents' Pillar 3 preparations and to cover the entry into full Solvency II Pillar 3 reporting.

2015 TIMETABLE AND DELIVERABLES

Timetable

The proposed timetable for 2015 can be found in **Appendix 1** and includes all capital and Solvency II related deliverables required throughout the year. The timetable also includes Risk Assurance related activity and deliverables. It 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	SIGN OFF
GQD Return	Board Awareness
2015 SCR Re-assessment	Director sign off on behalf of the Board
SII Balance Sheet @ 31.12.14	Two directors on behalf of the Board, to include the Finance Director
Interim reporting as at 31.12.14 ASR/ AAD	Full Board sign off
ORSA	Full Board sign off
TPD Return as at 31.12.14	Director sign off on behalf of the Board
Actuarial Function Report	Signed by Actuarial Function - Report to the Board
Standard Formula SCR	Director sign off on behalf of the Board
Pillar 3 “status” template	Board Awareness
Draft SCR submission	Full Board sign off
Interim Validation Report *(voluntary submission)* and Validation Report	Signed by Validator – Report to the Board
SII Balance Sheet @ 30.06.15	Two directors on behalf of the Board, to include the Finance Director
Final SCR submission	Full Board sign off
Major Model Change Application	Full Board sign off
Quarterly Model Change reporting	Board awareness
Pillar 3 Dry Run	Board awareness
Interim Reporting as at 30.09.15 QSR/ QAD	Full Board sign off
Confirmation Statements on SII Status	Full Board sign off

Actuarial Function Report 2015 submissions

For 2015, Lloyd's will collect Actuarial Function reports by 29 May 2015 covering, as a minimum, Technical Provisions and Risk Management contribution and by 30 October 2015 covering Underwriting and Reinsurance Opinions. Managing agents may provide Lloyd's with the Underwriting and Reinsurance opinions at a date earlier than 30 October and Lloyd's will review and provide feedback on these as and when received. It is expected that Underwriting and Reinsurance Opinions supplied later in 2015 would cover the planning process in respect of the 2016 underwriting year. Lloyd's requires all four components of the Actuarial Function report from all Managing Agents to be submitted by 30 October 2015.

The 2015 submission will be reviewed against the full Solvency II requirements. Lloyd's expects all "required" actions highlighted in the 2014 submission reviews to be addressed in the 2015 reports.

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

www.lloyds.com/The-Market/Operating-at-Lloyds/Solvency-II/Information-for-managing-agents/Guidance-and-workshops/Technical-Provisions-and-Standard-Form

Board Confirmation of continued compliance with Solvency II Requirements

The Solvency II Requirements are included within Lloyd's Minimum Standards. We will look for agents to attest to continued compliance with the Minimum Standards (similar to that of the Solvency II attestations). This will meet the regulatory requirement for continued explicit compliance with the Solvency II Requirements.

Workshops

The schedule of workshops planned for 2015 is set out in the timetable at Appendix 1. During the Dry Run, workshops have mainly covered Solvency II elements. For 2015 and beyond, whilst workshops focussing on Solvency II updates will continue, the timetable now also includes workshops which cover wider Risk Assurance activities.

APPENDICES

KEY DATES FOR 2015

	JANUARY	FEBRUARY	MARCH	APRIL	MAY	JUNE	JULY	AUGUST	SEPTEMBER	OCTOBER	NOVEMBER	DECEMBER
SOLVENCY II QUANTITATIVE SUBMISSIONS	13 Jan Q4 2014 GQD return		5 March SII Balance Sheet @31/12/14 5 March 2015 SCR Re-assessment	2 April TPD @ 31/12/14 9 April Q1 2015 GQD Return 16 April ASR/ AAD including qualitative reporting @31/12/2014 (for compliance with EIOPA guidelines)	29 May Standard Formula SCR	30 June SREP Pillar "status" template	2 July Draft SCR via LCR 9 July Q2 2015 GQD Return		3 Sept SII Balance Sheet @30/6/15 15 Sept Final SCR via LCR 24 Sept SREP Pillar 3 Dry Run	8 October Q3 2015 GQD return	5 Nov QSR/ QAD @30/09/2015	
SOLVENCY II QUALITATIVE SUBMISSIONS			26 March ORSA Submission 5 March Model Change Report		29 May Actuarial Function Report (incl Technical Provisions as a minimum)		2 July Voluntary Interim Validation Report 2 July Model Change Report		22 Sept Validation Report 15 Sept Model Change Report	30 October Actuarial Function Report (incl RI and Underwriting)		18 Dec Board confirmation of status against Minimum Standards 18 Dec Model Change Report
RISK ASSURANCE/ MINIMUM STANDARDS			*31 March MS7 - Validation* Self-assessment submission *31 March MS8 - Investment Management* Self-assessment submission			*30 June MS12 - Operating at Lloyd's* Self-assessment submission			*30 September MS5 - Scope, change & use* Self-assessment submission			*31 December MS3 - Governance* Self-assessment submission
WORKSHOPS/ BRIEFINGS	20 January Capital briefing	2 February Director briefing *6 February* *MS7 & MS8 Self-assessment launch briefing*			*18 May* *MS12 Self-assessment launch briefing*	*8 June* *Pillar 3 workshop* 22 June	*1 & 2 July* *Conduct Risk workshop* *8 July* *ORSA & Model Change briefing* 20 & 21 July	10 August *11 August* *MS5 Self-assessment launch briefing*	30 September	*19 October* *Pillar 3 workshop* 20 October *TBA* *Conduct Risk workshop*	*9 November* *MS3 Self-assessment launch briefing* 10 November 23 & 24 November	1 & 2 December 7 & 9 December

KEY: Unassigned workshop

APPENDIX 2: TEMPLATE FOR PRE-APPROVAL OF A MAJOR MODEL CHANGE

AGENT	
SYNDICATE	
DATE	
MODEL CHANGE POLICY VERSION	

CHANGE TYPE:

LLOYD'S CHANGE TYPE	
AGENT CHANGE TYPE	
QUALITATIVE/QUANTITATIVE	
CHANGE CLASSIFICATION (MAJOR/MINOR)	
IS THIS MAJOR CHANGE AS A RESULT OF A COMBINATION OF MINOR CHANGES?	

IMPACT OF THE CHANGE:

DESCRIPTION AND RATIONALE FOR THE CHANGE

IMPLICATION OF CHANGE ON DESIGN AND OPERATION OF THE MODEL

VALIDATION UNDERTAKEN ON THE MODEL CHANGE

EVIDENCE AVAILABLE TO SUPPORT CHANGE

ULTIMATE SCR	PERCENTAGE IMPACT (%)	
	FINANCIAL IMPACT(£)	
1 YEAR SCR	PERCENTAGE IMPACT (%)	
	FINANCIAL IMPACT(£)	

APPROVAL OF CHANGE:

APPROVAL COMMITTEE(S)	
DATE OF APPROVAL	
EVIDENCE AVAILABLE OF APPROVAL	

ANY FURTHER INFORMATION:

APPENDIX 3: TEMPLATE FOR QUARTERLY MODEL CHANGE SUBMISSION

Lloyd's asks managing agents to use the template below for the information to be included in the Quarterly submissions (*examples are included in italics and an excel version of the template is also available*). Agents are requested not to amend the format of the template.

Date	Syndicate number to which the model change applies	Lloyd's Change type	Agent Change type	Qualitative/ Quantitative	Description and rationale for change	Implication of change on design and operation of the internal model	Classification (Major/ Minor)	Ultimate SCR Impact		1 Year SCR Impact		Committee Approval	Is combination of minor changes deemed to be a major change? (Yes/No)	Does the entry fall within the scope of the model change policy? (Yes/No)	Model change policy version	Any further information
								%	£m	%	£m					
1st Nov 2013	*xxx*	*Model Methodology*	*As per agent's model change policy*	*Quantitative*	*Change dependency structure to address feedback provided as part of SCR review.*	*More accurate calculation and reduce model run time.*	*Major*	*16.4%*	*£16.4m*	*16.4%*	*£16.4m*	*Board*	*No*	*Yes*	*V5.0, 30/09/13*	*Change made to version 1.3 of the calculation kernel.*
2nd Jan 2014	*xxx*	*Governance*	*As per agent's model change policy*	*Qualitative*	*Additional actuarial representative added to the membership of the Risk Committee.*	*Increased actuarial challenge and input at Risk Committee.*	*Minor*	*n/a*	*n/a*	*n/a*	*n/a*	*Risk Committee*	*No*	*Yes*	*V5.0, 30/09/13*	*Change reflected in v2.3 of the Risk Committee Terms of Reference.*
3rd April 2014	*xxx*	*Parameterisation*	*As per agent's model change policy*	*Quantitative*	*Quarterly refresh of model parameters to feed SCR input to quarterly ORSA.*	*Business as usual.*	*Minor*	*-6.7%*	*(£6.7m)*	*-4%*	*(£4.0m)*	*Internal Model Governance Committee*	*Yes*	*Yes*	*V6.0, 31/03/14*	*Change made to version 2.1 of the calculation kernel.*

APPENDIX 4: GUIDANCE FOR COMPLETION OF MODEL CHANGE SUBMISSIONS

The following table provides further guidance on the content to be included in the templates above:

Column	Content
Date	The date the model change was considered by the relevant governance committee. In the quarterly submission, changes should be recorded in chronological order. Where changes were considered post implementation, e.g. by the board, this can be captured under ‘Any further information’.
Syndicate number to which the model change applies	Include the syndicate number to which the model change applies. A separate quarterly report should be produced for each managed syndicate.
Lloyd’s Change type	Change types as set out in Lloyd’s guidance of March 2014, i.e. data updates, underlying risk profile, model parameterisation, model methodology, model design, governance/controls. Where an agent considers that their own model change type maps to more than one of the Lloyd’s categories, they should select the Lloyd’s type that they consider most appropriate and include a comment on any other Lloyd’s change type considered relevant under ‘Any further information’.
Agent change type	The change type as defined in the agent’s model change policy, which will not necessarily be the same as Lloyd’s guideline definitions.
Qualitative or Quantitative	Whether the change is considered to be qualitative or quantitative. If the impact of the change can be quantified, then it should be classified as a quantitative change. Where relevant, comments on any qualitative aspects can be included under ‘Description and rationale for change’ or ‘Any further information’.
Description and rationale for change	Further detail on the change undertaken including a description of the change, the rationale for the change and any other relevant details, e.g. for qualitative changes the criteria used for classification of the change. Where small changes are batched and processed as one change e.g. by time, segment or other criteria this should also be detailed here.

Column	Content
Implication of change on design and operation of the internal model	The impact of the change on the design and operation of the internal model e.g. more stable output, change in run time. This field can also be used to capture further detail on the impact of qualitative changes to the model.
Validation undertaken on the model change	An outline of the Validation activity undertaken to support the model change.
Classification	Whether the change is major or minor.
SCR Impact (%) and £m	For quantitative changes, the percentage and financial impact on the ultimate SCR and the one year regulatory SCR. Enter zero for qualitative changes. When calculating the impact of the change agents should calculate the percentage difference compared to the SCR derived from the version of the model that was in use immediately prior to the change.
Committee Approval	The managing agent governance committee which has approved the change being considered e.g. Internal Model Governance Committee, Risk Committee, Executive Committee, Board etc. Include detail here if the change was not approved when considered by the relevant committee. Full Board approval is required for each major model change.
Is combination of minor changes deemed to be a major change?	Applicable only to minor changes. Indicator of whether the minor change being considered combines with prior minor changes to trigger a major change based on the approach to combination of changes currently adopted by the managing agent. Managing agents should select ‘yes’ for the minor change that triggers the major change classification. For example if there are 4 minor changes that taken together are considered a major change, then ‘yes’ should be selected for the last of the minor changes. The date of approval should reflect the date that the combined major change was considered by the board. Agents should include any further clarification or information they consider necessary under ‘Any further information’, including references to any supporting documentation that is available. Changes should be recorded in chronological order. Once a major change is triggered, any prior minor changes do not need to be taken into account when considering further combinations of changes.

Column	Content
Does the entry fall within the scope of the model change policy?	Indicator of whether changes recorded would be considered a change within the managing agent's current policy. In practice Lloyd's expects that the majority of entries will fall within scope of the model change policy; the exception would be where an agent has defined data updates which it considers to be out of scope for model change. Any such 'data updates' must be included in the model change report for 2015.
Model change policy version	Details of the version of the policy in force at the time the change was considered through internal governance processes
Any further information	Free form box to capture any additional information which a managing agent would like to submit to clarify the entries in the report or to support the change undertaken e.g. model version/reference number.