LLOYD'S

SOLVENCY II

DETAILED GUIDANCE NOTES

MARCH 2010

SECTION 8 - SUPERVISORY REPORTING AND DISCLOSURE

SECTION 8: REPORTING AND DISCLOSURE

Overview

This section outlines the Solvency II requirements for supervisory reporting and disclosure by setting out how it is envisaged that Lloyd's and syndicates will meet these.

Completion of the proposed regulatory returns under Solvency II does not form part of the dry run exercise, but agents must consider the arrangements needed to be set up to be able to meet these requirements.

This section addresses three specific areas:

- Regulatory reporting returns
- Basis of calculating and reporting SCR and MCR
- Output required from syndicate models for the LIM

Guidance

Managing agents should note that this guidance represents Lloyd's best view of current requirements but is subject to ongoing discussion and change as both CEIOPS proposals and FSA requirements become finalised and Lloyd's own development on Solvency II progresses. Lloyd's will continue to monitor and review progress in these areas and seek to update the guidance as appropriate.

The commentary on proposed level 2 measures attached highlights the relevant sections for the dry run and does not reproduce the full level 2 text. Any additional guidance provided in this document is intended to supplement the level 2 measures, not repeat them, and agents must therefore ensure that they are familiar with all of the requirements and do not rely solely on the additional guidance provided here.

Whilst this document refers to general Solvency II requirements, this guidance is specific to Lloyd's and managing agents in many areas. Due to the unique structure of Lloyd's and the application of the Solvency II directive at society level, some of this guidance will not be relevant to non Lloyd's firms.

Contents

This section includes the following

- Level 1 directive text and commentary on application of proposed level 2 requirements to Lloyd's managing agents
- Guidance on regulatory reporting
- Guidance on the basis of calculating and reporting the SCR and MCR
- Information regarding inputs to the Lloyd's Internal Model ("LIM")
- Appendix 8a – Contents of the Solvency and Financial Condition Report and Report To Supervisors
- Appendix 8b – Detailed gap analysis from the current QMA
- Appendix 8c – Examples where a revised syndicate SCR will be required

LEVEL 1 AND LEVEL 2 MEASURES

The Level 2 measures set out here are based on CEIOPS paper Doc 50/09 published October 2009. These measures may be subject to modification before they come into force.

Reporting and disclosure

Directive Article 35 (summary)

Article 35 sets out the information to be provided for supervisory purposes, both qualitative and quantitative. In addition to the solvency and financial condition report (SFCR) referred to below, the (re)insurer will need to provide other information to the supervisor on a private basis, more frequently. Reporting must reflect the nature, scale and complexity of the business, be complete in all material aspects, comparable and consistent over time and be relevant, reliable and comprehensible.

Application of proposed level 2 requirements to Lloyd's managing agents

Article 35.1, CEIOPS DOC 50/09: 3.33 to 3.37

A managing agent must submit the information required by Lloyd's for its RTS and SFCR on a regular basis.

The SFCR is the public report through which Lloyd's discloses information to enable the public to analyse its solvency and financial condition. Lloyd's has the responsibility to compile and publish this report. The FSA will review the SFCR, using a risk-based approach, to ensure that it fulfils the established requirements, and that the information presented is appropriate and consistent with the information provided under the RTS, so that it allows a proper understanding of the solvency and financial condition of Lloyd's.

The RTS is a private report through which Lloyd's submits regular information to the FSA. The RTS will enable the FSA to carry out the Supervisory Review Process (SRP), and also forms the basis for the supervisory dialogue between Lloyd's and the FSA. The FSA will review the RTS to ensure that it fulfils the established requirements and is consistent with the SFCR.

Both the RTS and the SFCR:

- Must contain a qualitative report, including quantitative data and reporting templates as appropriate.
- Are stand-alone documents and follow a similar structure.

Part of the data required by the FSA will be collected through quantitative reporting templates. These templates will be finalised in Level 3 guidance and will be compulsory.

Submission of the RTS

Article 35.2, CEIOPS DOC 50/09: 3.546 to 3.551

The RTS is a stand-alone document, which does not require reference to any other document in order to be understood by the FSA, and contains information specifically aimed at the FSA, including elements also set out in the SFCR.

Lloyd's must submit the RTS to the FSA regularly.

Lloyd's detailed compliance with the requirement to submit the RTS will depend on the FSA:

- If the FSA informs Lloyd's that, due to its risk profile, an annual detailed assessment is required as part of its SRP, Lloyd's will provide the full qualitative RTS annually.
- The FSA may set the frequency of the submission of a detailed assessment as less than annually. Between the dates at which a detailed assessment is required, Lloyd's will then provide only an analysis of material changes that have occurred over the reporting period. If no material changes have occurred, a statement to that effect is required.
- The maximum period between full reports must not be more than five years.

Lloyd's will provide the qualitative RTS (whether full or providing only material changes) electronically.

The Council of Lloyd's will approve the qualitative RTS and all quantitative reporting templates.

Some quantitative standardised templates and some qualitative elements of narrative reporting requirements will be subject to an external audit. These elements will be finalised at level 3.

Timescales for submission to the FSA:

Article 35.2, CEIOPS DOC 50/09 3.550, 565, 566

Annual RTS: within 14 weeks of the end of Lloyd's financial year.

Quarterly quantitative information: within four weeks of the quarter end (includes the fourth quarter).

Transitional arrangements:

Article 35.2, CEIOPS DOC 50/09 3.571

In the first year following implementation, annual deadlines will be extended by 6 weeks (to 20 weeks) and quarterly deadlines by 2 weeks (to 6 weeks).

In the second year following implementation, annual deadlines will be extended by 4 weeks (to 18 weeks) and quarterly deadlines by 1 week (to 5 weeks).

Other supervisory reporting requirements:

Article 35.2, CEIOPS DOC (references as below)

Lloyd's and a Lloyd's managing agent must report to the FSA any information that is necessary for the purpose of supervision following the occurrence of an event that could affect the protection of policyholders. These are events that can lead to material changes in Lloyd's risk profile, if it has not been reported already as part of supervisory processes. **(3.583, 3.584)**

This information must be reported as soon as possible after the event and, depending on the nature of the event, the FSA may require Lloyd's or a Lloyd's managing agent to report information on a regular basis, to enable it to monitor the situation. **(3.585)**

The FSA has the power to request any information which is necessary for the purpose of supervision during enquiries regarding the situation of Lloyd's or a Lloyd's managing agent. **(3.594)**

60%Information must be reported to the FSA in a clear and understandable manner. **(3.597)**

The FSA can request information from Lloyd's or a Lloyd's managing agent on contracts which are held by intermediaries or regarding contracts which are entered into with third parties, where it is considered necessary and important for the purposes of supervision. The FSA's working assumption is that Lloyd's and Lloyd's managing agents have immediate access to information from external experts, such as auditors and actuaries, as part of their records management procedures. **(3.602)**

Lloyd's and a Lloyd's managing agent must keep copies of, or have immediate access to, contracts held by third parties. **(3.603)**

Information requested by the FSA from Lloyd's or Lloyd's managing agents, either during on-site inspections or off-site analysis, will be supplied on a timely basis following the request, and include full details of the scope and findings of the work performed. **(3.607)**

The FSA may require copies of Lloyd's or Lloyd's managing agents' regular management information or internal reports or templates, as they deem necessary for the purposes of supervision. These reporting requirements will be assessed on a case-by-case basis, taking into account the principle of proportionality and the intensity of the SRP.

In relation to qualitative supervisory reporting and public disclosure, the proportionality principle will be applied in the following manner:

- The detail of information to be supplied by Lloyd's will be commensurate with the nature, scale and complexity of the risks inherent in the Lloyd's market;
- Lloyd's will not be required to fulfil reporting or disclosure requirements that are not applicable to it. In such cases, it will suffice to state that the requirements are not applicable to it; and

- The frequency with which Lloyd's has to provide full qualitative information through the RTS will be linked to the intensity of its SRP.

  Information is “material” if its omission or misstatement could influence the economic decisions of users taken on the basis of the financial statements. Materiality depends on the size of the item or error, judged in the particular circumstances of its omission or misstatement. Thus, materiality provides a threshold or cut-off point, rather than being a primary qualitative characteristic which information must have if it is to be useful.

Reporting policy

Article 55.1, CEIOPS DOC-50/09 3.73 to 3.77

Agents must have a written reporting policy. This policy must ensure:

- That it has appropriate governance procedures and practices in place so that information reported to the FSA via Lloyd’s is complete, consistent and accurate.
- That reporting requirements are completed within the timeframes set by Lloyd’s and the FSA.
- The development of a stable internal system through which it is able to accurately complete the quantitative reporting templates required by Lloyd’s and the FSA.

Solvency and Financial Condition Report (SFCR): contents

Directive Article 51 (summary)

Article 51 sets out the contents of the report on the SFCR which will include full disclosure of the Minimum Capital Requirement (MCR) and Solvency Capital Requirement (SCR). This report, which will be required annually, will contain both quantitative and qualitative information including details of:

- *the business and its performance*
- *its system of governance and assessment of its adequacy given the business’ risk profile*
- *risk exposures, concentration, mitigation and sensitivity*
- *assets, technical provisions and other liabilities*
- *capital structure and management including the amount of the MCR and SCR, including reconciliation of the SCR if calculated using an internal model, to that per the standard formula*

Application of proposed level 2 requirements to Lloyd’s managing agents

DOC 50/09 provides a detailed list of the content of the SFCR. Syndicates are not required to submit an equivalent SFCR to Lloyd’s, but they should be aware of the general content of this document as outlined above. Managing agents will be required to submit to Lloyd’s relevant information to enable it to complete its SFCR.

SFCR: non-disclosure

Directive Article 53

1. *Supervisory authorities shall permit insurance and reinsurance undertakings not to disclose information where:*

(a) *by disclosing such information, the competitors of the undertaking would gain significant undue advantage;*

(b) *there are obligations to policyholders or other counterparty relationships binding an undertaking to secrecy or confidentiality.*

2. *Where non-disclosure of information is permitted by the supervisory authority, undertakings shall make a statement to this effect in their report on solvency and financial condition and shall state the reasons.*

3. *Supervisory authorities shall permit insurance and reinsurance undertakings to make use of, or refer to, public disclosures made under other legal or regulatory requirements, to the extent that those disclosures are equivalent to the information required under Article 51 in both their nature and scope.*

4. *Paragraphs 1 and 2 shall not apply to the information referred to in the last bullet point of Article 51 above.*

Application of proposed level 2 requirements to Lloyd’s managing agents

Lloyd’s will make an application to the FSA if it wishes not to disclose certain information in the SFCR. This non-disclosure, along with its reasons, will be explicitly mentioned in the SFCR. The decision will remain valid as long as the content of the non-disclosed information and the reasons for non-disclosure persist. If the reasons for non-disclosure no longer apply, Lloyd's must disclose the information. Managing agents need to be aware of the reasons that will allow Lloyd’s to make such a request.

SFCR: updates

Article 54, CEIOPS Doc 50/09 3.588 and 3.589)

Article 54 covers requirements for updating the SFCR and providing additional voluntary information. Undertakings are required to update the information disclosed where appropriate and they are allowed to disclose additional information on a voluntary basis. Updates are required in the event of any major development, including non compliance with MCR or SCR calculations.

Application of proposed level 2 requirements to Lloyd’s managing agents

A managing agent must be aware of Lloyd’s responsibilities. These are:

- Lloyd's shall update its SFCR in the event of any significant developments affecting the relevance of the information disclosed.
- Lloyd's shall submit any updated SFCR to the supervisor at the same time as it is published.

Lloyd’s shall advise managing agents if they need to provide revised information to Lloyd’s in such a circumstance.

SFCR: systems, procedures and policies

Article 55, CEIOPS Doc 50/09 3.73 to 3.77

Member States shall require insurance and reinsurance undertakings to have appropriate systems and structures in place to fulfil the requirements laid down in Articles 51 and 53 and Article 54(1), as well as to have a written policy ensuring the ongoing appropriateness of any information disclosed in accordance with Articles 51, 53 and 54.

The solvency and financial condition report shall be subject to approval by the administrative, management or supervisory body of the insurance or reinsurance undertaking and be published only after that approval.

Application of proposed level 2 requirements to Lloyd’s managing agents

A managing agent must submit a written policy to Lloyd’s with respect to the preparation and submission of information to enable Lloyd’s to complete its SFCR and RTS,

The written policy shall set out the deadline for completion of the various drafting components of the process and allow sufficient time for review and approval by the managing agent’s Board before submission to Lloyd’s.

REGULATORY REPORTING

At this stage the reporting requirements are not yet finalised and will not be until 2011. Thus all of the contents of this section represent our current understanding of and envisaged approach to meet the Pillar 3 requirements, and as such all guidance set out herein is draft and could change**.** In addition, the final detail with respect to how the reporting requirements will be met by Lloyd's, with respect to syndicate level reporting and usage of centrally held data, are subject to discussion and agreement with the FSA.

Background

Solvency II will introduce new requirements in respect of supervisory reporting and disclosure, for all insurance undertakings located within the European Union (EU).

These requirements are more extensive and more onerous than those which currently exist, and introduce new quantitative and qualitative annual reporting requirements and new quarterly reporting requirements. Additionally, the deadlines for reporting to the supervisor are significantly accelerated compared with today, although there are transitional arrangements in the first two years.

The Solvency II requirements with respect to reporting and disclosure, as with the Directive as a whole, apply to the 'the association of underwriters known as Lloyd's' as a single entity. However, for Lloyd's to be able to comply with these requirements, it will be necessary, as now, to collect syndicate data from managing agents. It is Lloyd's intention, as far as possible, to apply syndicate reporting requirements on a pragmatic basis with regard to content, timing and audit, whilst ensuring compliance with Solvency II requirements.

This guidance summarises the additional reporting requirements and their timings. The detailed reporting requirements are not yet finalised and this will continue to be the case until the finalisation of the 'Level 3' guidance in 2011. Lloyd's shall, however, issue a template of pro forma syndicate reporting forms in late 2010, which is intended to help managing agents in their planning. Agents should also refer to CEIOPS' current level 2 advice.

Current supervisory reporting requirements

Lloyd's submits an annual return, the Lloyd's Return, to the FSA. This return constitutes an aggregation of syndicate level returns and data held centrally by Lloyd's with respect to the central assets of the Society and members' assets.

The Lloyd's Return must be submitted to the FSA by 30 June. Syndicate level input comes from the 31 December QMA return (due to Lloyd's end February) and Solvency and Reserving Data (SRD) (due to Lloyd's early April). The Lloyd's Return must be audited.

In addition Lloyd's reports its solvency position to the FSA on a quarterly basis. The members' solvency positions are updated based on syndicate quarterly QMA returns, submitted 8 weeks after the end of each quarter.

Lloyd's is required to submit its ICA to the FSA in accordance with the FSA's ICAS requirements. As part of this, each syndicate must submit its ICA to Lloyd's. The syndicate ICA is calculated annually and updated as appropriate.

Solvency II annual supervisory reporting requirements

There will be two annual supervisory returns required to be made to the FSA, the Solvency and Financial Condition Report (SFCR) and Report to Supervisors (RTS). The SFCR will be a publicly-available return; this will replace the Lloyd's Return. The SFCR will be complemented by the RTS which will be submitted privately, as it will contain commercially sensitive and confidential information. The allocation of items between the SFCR (and, thus, publicly available) and the RTS is yet to be finalised.

Lloyd's will submit an SFCR and RTS to the FSA for the 'association of underwriters known as Lloyd's'. These returns, as today, will consist of an aggregation of syndicate returns and centrally held information.

SFCR and RTS

The SFCR and RTS will comprise a mix of qualitative and quantitative information, as set out in Appendix 8a.

Both have broadly similar headings. This is consistent with the concept of the RTS providing an enhancement to the information reported in the SFCR.

Completion of the SFCR and RTS will require the collection of additional data from syndicates and this is addressed further below.

Solvency II supervisory quarterly reporting requirements

Solvency II requires the calculation of the MCR on a quarterly basis. Given that the MCR is limited to a corridor with boundaries derived from the SCR, this means that the SCR needs to be reviewed on a quarterly basis. The purpose of the quarterly syndicate reporting is to provide quantitative data to support the quarterly SCR assessment and MCR calculation for "the association of underwriters known as Lloyd's".

The quarterly reporting requirements will consist of core financial and solvency information (i.e. a subset of the year end returns) such as technical provisions, premiums and claims, data on assets including investments, and own funds. The exact content of the quarterly reports will not be finalised until the Level 3 guidance is finalised in 2011.

In order for Lloyd's to meet its quarterly reporting requirements, it will be necessary to collect syndicate data from managing agents on a quarterly basis and this is addressed further below.

Additional syndicate reporting requirements

As set out above, completion of the SFCR, RTS and quarterly reporting will entail the collection of additional quantitative and qualitative information on syndicates from managing agents.

Content – quantitative information

The additional ***quantitative*** information requirements are summarised below. Form references are to the draft CEIOPS reporting templates contained in CP58 - (link - CEIOPS CP-58-09- reporting templates)

- Solvency capital requirement (SCR) and minimum capital requirement (MCR), own funds eligible to meet the SCR/MCR and risks considered in the internal model (see A1, B1, B2A, B2B, B3A – B3F, B4A and B4Q)
- Solvency II balance sheet values (see C1)
- Investments data (see D1-D3)
- Derivatives data (see D4)
- Values of Collective Investment Schemes on balance sheet (see D5)
- Valuation assumptions for technical provisions (see E4 and E5)
- Previous years' data dating back to 2003 and prior relating to: claims triangles, earnings profile, commissions, reinsurance commissions, other acquisition expenses, profit participations from reinsurance and administrative expenses (see F5, F6, H1, H2 and H3)
- Projected future cash flows (see G3 and G4)
- Information on annuities and life-like liabilities stemming from non-life insurance claims (see H4)
- Non-life insurance exposure and claims numbers (see H5)
- Risk and loss profiles (see J1 and J2)
- The 10 biggest non-life facultative risks (see J3)
- Details of the reinsurers' share of technical provisions, receivables and earned outwards reinsurance premiums (see J4)
- For life business, Solvency II requires additional disclosures – for example: premiums per line of business, split of technical provisions (direct and reinsurance share), technical provisions valuation assumptions (economic, mortality, lapse and expense), life liability analysis, new life business analysis etc.

The above list is not exhaustive, but aims to cover the additional syndicate-level information which it is envisaged will need to be collected from managing agents.

Appendix 8b contains a review of the current QMA, setting out areas where additional data will be needed to meet Solvency II reporting requirements.

Syndicates and Lloyd's will need to calculate their SCR at least once every year and this will replace the current ICA process. However, there are instances when mid-year recalculation of the SCR will be required, for example, when there is significant change in syndicates' risk profiles. This is considered further in the 'Basis of calculating and reporting SCR and MCR' section, below.

Content – qualitative information

The level of qualitative information required from managing agents should be proportionate to the size, nature and complexity of each managed syndicate. However, it must be adequate for Lloyd's to be able to assess how the syndicates are being managed and demonstrate linkage of governance, risk management, internal audit, actuarial function etc.

Even though Lloyd's will be providing the FSA with the required qualitative information on business and performance, systems of governance, risk management, capital management and internal model, managing agents will also need to provide qualitative information on these areas to Lloyd's.

Lloyd's recognises that each syndicate is different but it shall, as far as possible, provide standardised 'qualitative' templates for completion in the QMA. In addition, each syndicate will be required to prepare an Own Risk and Solvency Assessment (ORSA). The ORSA will, among other things, support the syndicate's SCR calculation and will replace the ICA documentation. The envisaged requirements in respect of the ORSA are dealt with in section 9 of this document. Where information is reported to Lloyd's in the syndicate ORSA, Lloyd's shall seek to avoid as far as possible the repetition of this in other syndicate regulatory returns to Lloyd's.

To the extent that this is practicable, Lloyd's will set a reporting materiality threshold for the market each year which will be the same across all syndicates for the purpose of managing agents reporting items to Lloyd's under Solvency II.

Method of collection of data from syndicates

Currently, information is collected through QMA (audited at year end), QMB (unaudited) and SRD (unaudited). We envisage continuing with the same approach. We will determine the draft content and format of these in Q4 2010.

As mentioned above, Lloyd's will need to collect some quantitative information from syndicates so as to be able to calculate its quarterly MCR. This information will be collected through a mini-quarterly return and syndicates will have to submit this to Lloyd's shortly after the end of each quarter (including as at 31 December) to meet the accelerated quarterly reporting timetable.

Annual reporting

The 31 December QMA will be expanded to collect some of the additional data required for the SFCR and RTS. This QMA will require Board sign-off and the majority of this data will need to be audited. However, as today, it is envisaged that the detailed analysis of the underwriting account and technical provisions will be collected via the SRD. As noted above, it is envisaged that we shall collect as much of the qualitative information as possible via the ORSA.

As part of this, it will be necessary to secure audit sign-off on the balance sheets and results on both an accounting basis (for use in the Lloyd's aggregate accounts) and a Solvency II basis (for use in the SFCR and RTS, and to reconcile with the SRD, below).

The scope of the SRD as at 31 December will be modified to collect information using the Solvency II lines of business and major currencies and, in particular, to collect the analysis of technical provisions on a Solvency II basis, i.e. undiscounted best estimate, discount, and the risk margin. The SRD will, as today, need to be approved by the Board. It is not envisaged that audit sign-off will be required but the total figures will need to agree with the audited Solvency II numbers in the QMA. In order that the SRD can be incorporated into the SFCR and RTS, it will be necessary to accelerate the deadline date for submission of the SRD from the current early April, to late February. This acceleration will be phased in over the first three years after the implementation of Solvency II.

In the case of historic data going back to 2003 that is required under Solvency II, this will be collected in a "one-off" exercise in 2012.

Quarterly reporting – QMA

In order to meet the quarterly reporting requirements, it will be necessary to collect a limited amount of syndicate information directly from managing agents shortly after the quarter end (including as at 31 December). This will comprise:

- Regulatory balance sheet
- Underwriting account
- Breakdown of premiums, claims and technical provisions by Solvency II line of business
- Data on assets including investments and own funds

Due to the tight time constraints, this information may be prepared on an approximate basis. Board sign-off will be required, but the submission will not need to be audited. Further details on how the quarterly reporting will be achieved will be provided later in 2010.

In addition the existing QMA requirement, to be submitted 8 weeks after the quarter end, shall be retained. However, the QMA will now include both the solvency and GAAP numbers. Where there are material differences between the numbers reported in the earlier submission and the full QMA, an explanation/reconciliation must be provided by the managing agent.

Timing

Under Solvency II, the deadline dates for reporting to the supervisor (i.e. for Lloyd's to report to the FSA) are significantly accelerated, although there are transitional arrangements.

In order for Lloyd's to be able to meet these requirements, it will in turn need to accelerate the submission of syndicate returns from managing agents, giving Lloyd's sufficient time to review them and incorporate the data into the aggregate returns.

As Solvency II is expected to start at 31 October 2012, the first reporting date for the quarterly and annual returns is 31 December 2012. The **envisaged** timetable for reporting, in weeks after the year end is:

Annual returns

Return	Status	Now	Year 1	Year 2	Year 3
		31.12.09	31.12.12	31.12.13	31.12.14+
Lloyd's SFCR/RTS	 Audited	 26 weeks	 20 weeks	 18 weeks	 14 weeks
Syndicates QMA QMB SRD	 Audited Unaudited Unaudited	 8 weeks 8 weeks 15 weeks	 8 weeks 8 weeks 12 weeks	 8 weeks 8 weeks 11 weeks	 8 weeks 8 weeks 8 weeks

Quarterly returns

Return	Status	Now	Year 1	Year 2	Year 3
		31.12.09	Up to 30.09.13	Up to 30.09.14	31.12.14+
Lloyd's	Unaudited	-	6 weeks	5 weeks	4 weeks
Syndicates QMA (SII) QMA (rest)*	 Estimates Unaudited	 - 8 weeks	 3 weeks 8 weeks	 2 weeks 8 weeks	 2 weeks 8 weeks

* This will include both the solvency and GAAP numbers and the return at 30 June will, as today, need to be reviewed by auditors for use in Lloyd's interim results

Board sign-off and audit requirements

Lloyd's SCFR, RTS and quarterly reporting to the FSA will need to be approved by Lloyd's executive. The returns made by syndicates to Lloyd's to support these filings will also need approval by the managing agent's Board of Directors.

Audit requirements have not yet been finalised with respect to the 31 December returns but no audit sign-off is required for the quarterly returns.

It is envisaged that the syndicate QMAs made at 31 December will require audit sign-off. It is intended that the SRD will not require audit sign-off although the totals must agree to the audited QMA.

Next steps

These guidance notes should be treated as illustrative at this stage, given that the specific reporting and disclosure requirements are not yet final, and will not be so until the Level 3 measures are finalised in 2011.

In particular, uncertainty remains as to:

- What information will appear in the SFCR and what will be in the RTS;
- The final reporting templates, including the quarterly reporting requirements; and
- The extent of audit requirements.

In addition, the basis of how Lloyd's will meet the requirements, in terms of returns from syndicates and using centrally-held data, is to be discussed and agreed with the FSA; this is intended to be addressed this summer.

Lloyd's will provide further guidance to the market in Q4 2010 including a template of pro forma syndicate reporting forms, i.e. what the QMA and Solvency II quarterly reporting forms might look like.

BASIS OF CALCULATING AND REPORTING SCR AND MCR

Setting the SCR basis and timetable

Under Solvency II, insurance undertakings must calculate their SCR at least once a year and must monitor it on a continuous basis. If the risk profile of the undertaking deviates significantly from the assumptions underlying the last reported SCR, the SCR must be recalculated without delay and reported to the FSA.

It is proposed that syndicate SCRs are calculated as at 1 January of each year and submitted on a similar timetable to the current ICA regime. However, as under ICAS, there will be an ongoing requirement for agents to keep the SCR under continuous review and it is expected that agents would review the SCR at least quarterly. Lloyd's will require the board of every managing agent to formally reaffirm for each managed syndicate that its authorised SCR remains an adequate proxy for the syndicate's capital requirement at 99.5% VaR over the 12 months from the relevant quarter end.

Recalculation

The syndicate SCR only needs to be recalculated and resubmitted to Lloyd's when it is deemed to have deviated significantly from the previous level, i.e. it is no longer an adequate proxy for the SCR over the 12 months from the data of recalculation. The basis for identifying a significant deviation would apply both in aggregate (i.e. the cumulative effect of many minor changes) or if any individual change or connected group of changes causes a significant deviation it itself, even if other independent changes bring the aggregate result back below the threshold.

Although the 12 month period being considered in any recalculation will normally extend into the following year of account, the recalculation of the syndicate SCR should be on a 12-month prospective basis as at 1 January 20xx, The changes giving rise to the requirement to recalculate should be treated as though they occurred on 31 December of the preceding year.

Appendix 8c provides some examples where revised SCR calculations would be required and the likely process.

It is expected that Lloyd's will require agents to submit data based on market standard stress tests and scenario tests in order to assist in identifying circumstances that will produce a significant deviation from the previous SCR. Details regarding reverse stress testing will be provided in Q4 2010.

Aligning capital setting with the annual venture at Lloyd's

Capital setting under Solvency II is aligned with the annual venture by:

- calculating syndicate SCRs based on 99.5% VaR over 12 months from 1 January of the year in question;
- only requiring recalculation if the previous syndicate SCR ceases to be an adequate proxy for the SCR based on 99.5% VaR over 12 months from the date of recalculation; and
- basing the recalculation on 99.5% VaR over 12 months from 1 January, with the changes giving rise to the need to recalculate assumed to have occurred on 31 December of the previous year.

Exceptional SCR recalculations

Lloyd's will normally calculate a full market SCR just once a year, based on the 12 months from 1 January. However, there may be exceptional circumstances where Lloyd's either wants, or is required to, calculate a full market SCR at some point during the year.

In these circumstances, Lloyd's may instruct some or all managing agents to provide approximate recalculations of their syndicate SCRs, based on the authorised models, regardless of whether or not they are expected to have breached the threshold for significant deviation.

The resubmission base date will be the date on which Lloyd's advised the requirement to resubmit. Depending on the information in the approximate recalculations, Lloyd's will make a decision as to whether full recalculations are required or whether it can use the approximations. This decision may vary from syndicate to syndicate.

Further information with respect to the process and timetables for calculation and recalculation of the SCR, and Lloyd's review thereof, will be provided in Q4 2010.

Setting the MCR: basis and timetable

Under Solvency II, Lloyd's will require agents to submit an MCR calculation for each syndicate quarterly as part of both the year end and quarterly reporting exercises. Lloyd's will also collect syndicate data on net technical provisions and net written premiums required to calculate the market MCR from managing agents on a quarterly basis. This will be used to calculate the unconstrained MCR at market level.

The timing of the regulatory deadlines is such that this information will be needed from managing agents within **two weeks** of each quarter end. Estimated syndicate balance sheets will be needed from managing agents within two weeks of each quarter end in order for Lloyd's to meet the regulatory reporting deadlines. Where the data cannot be finalised to this timetable, it should be supplied provisionally on a best efforts basis. Further details on how this might be achieved will be published in Q4 2010.

The market SCR will define the corridor that is applied to constrain the actual market MCR and quarterly syndicate MCR and SCR calculations will not be required `for this calculation.

Member level capital

The above does not cover the setting of economic capital at Market and member level which is covered in the calibration section.

INPUTS FROM SYNDICATE INTERNAL MODELS INTO THE LLOYD'S INTERNAL MODEL (LIM)

Lloyd's has agreed with the FSA that supervisory approval shall be sought for a single internal model (the LIM) for the 'association of underwriters known as Lloyd's'. Managing agents will however be required to have an internal model for each syndicate which independently meets Solvency II standards and each syndicate model will be an integral component of the LIM.

As such, agents will need to provide some standard output/information from their respective internal models to be incorporated into LIM to ensure consistency between members. As under the ICA process at present, it is anticipated that this information will be collected once a year through the use of pro-forma templates.

As development of the LIM is ongoing, full data requirements can not yet be finalised. To assist agents, Appendix 8D aims to give an indicative view of the proposed data requirements for which Lloyd's would welcome feedback.

Please note that whilst Lloyd's has tried to incorporate all requirements here, these are based on our current assessment of what will be required and may change as the LIM development continues. These requirements are also subject to ongoing consultation with the market and Lloyd's will advise agents of any changes as soon as they are known.

APPENDIX 8A

CONTENTS - SOLVENCY AND FINANCIAL CONDITION REPORT (SFCR) AND REPORT TO SUPERVISORS (RTS)

(taken from CEIOPS' final advice (CP50/09, formerly CP58) pages 30-32 and 84-86)

Capital Management

Undertakings with an approved internal model

Annex – Quantitative reporting templates

APPENDIX 8B

DETAILED GAP ANALYSIS FROM CURRENT QMA

Purpose

This section looks at the draft CEIOPS quantitative reporting forms and sets out gaps compared with the data currently collected from the syndicates in the Quarterly Monitoring Returns (QMA) by Lloyd's, in view of providing the syndicates with guidance on Lloyd's future reporting requirements under Solvency II.

This should not be treated as exhaustive but is provided as a guide only. All references are to the draft reporting templates provided by CEIOPS, which are subject to change:

Form A1: Coversheet for reporting

Capital requirements lines 1 to 9

These lines will be completed for the syndicate as a whole and summarises the syndicate's MCR and SCR; as such this is new information. 'Own funds' will only relate to syndicate Premiums Trust Funds (PTFs) (and funds in syndicate (FIS)) not funds at Lloyd's, which will be accounted for centrally.

Profit and Loss data

This is data is already collected. Mappings would be as follows:

- Line 10 – QMA104 N4
- Line 11 – QMA104 O4
- Line 12 – QMA104 N5

Non-life premiums – top 5 lines

This information can be sourced from either the QMA104 or the SRD return.

Life premiums

Life business is not collected under separate lines at present; it is only collected as 'Life' in the QMA, and not at all in the SRD or MRRQ data. Hence this additional information may need to be added either in the QMA or SRD.

Claims paid in the financial year, net

In accordance with current FSA requirements, this excludes ULAE, which is treated as an expense item. Therefore this can be sourced from QMA100 line 17.

Expenses in the financial year

This can be sourced from QMA100.

Balance sheet data (Solvency II basis)

Investment details are collected on QMA201 Line 19. Solvency adjustments would need to be determined on QMA005, or an equivalent, and then deducted from this amount to get to a Solvency II position.

Technical provisions lines 27 to 32 – The QMA223 would need to be modified to capture a split between direct business and reinsurance accepted. Reinsurance ceded is already collected. The QMA223 would also need to become a life form as only completed by non life at present.

Technical risk margin and discount rate – these are not currently collected, hence they will be an additional information requirement.

Form B1: Own funds

Basic and Ancillary funds

Some of the headings on this form are not relevant for syndicates.

Relevant information relating to syndicates' own funds will be collected.

MRC and SCR calculations

Syndicates will have to provide this information to Lloyd's on a quarterly basis.

Form B2A/B: Solvency Capital Requirement

It is anticipated that all syndicates shall be calculating their capital requirement using an internal model; thus only Form B2B would be completed.

Form B3A/B/C/D/E/F: Solvency Capital Requirement: further information

These forms collect a breakdown of the SCR calculated using the standard formula: it is not envisaged that these forms will be required to be completed by syndicates which it is anticipated will calculate the SCR using an internal model.

Form B4A: MCR Calculation

Non life and life MCR. This will be required to be completed quarterly for each syndicate.

Form B4Q: MCR Calculation

This is a new reporting requirement and will be required to be completed quarterly for each syndicate.

Form C1: Balance Sheet

The majority of the balance sheet as currently collected can be mapped into the 'statutory accounts' column of the balance sheet format prescribed on this form. However, 'Solvency II value' is a new reporting requirement for the syndicates; this will generally only be different in respect of technical provisions.

Form C2: Profit & Loss account

Technical account life

Currently, Lloyd's life syndicates currently compile their profit / loss accounts on the same basis as non life syndicates. This is because the level of business written is immaterial to the market as a whole.

However, since Solvency II require life syndicates to complete on the basis set out on form C2, a new form will be created to capture data in the prescribed format.

Technical account non-life

Lloyd's FSA Return Form 40 as it currently stands is completed from QMA100 data; the new Solvency II format is similar to prior reporting requirements.

Unwinding of discount and discount rate changes are not collected at present on the profit / loss account. This will be additional information to be provided by syndicates given the Solvency II basis of setting technical provisions.

Expenses attributable to new business are not currently separated from all other expense items.

Non Technical account

Tax and dividend information are not applicable from a syndicate point of view.

Form D1 Investments Data: Portfolio list

Investment data is not currently collected in this format, hence this will be a new reporting requirement.

Form D2 Investments Data: Groups of connected counterparties

This is not collected currently and will therefore become a new reporting requirement.

Form D3: Properties held for investment

This will need to be a new form to capture syndicate level information – this would currently be very limited in application.

Form D4: Derivatives

QMA531 currently collects data on derivatives, however not in the level of detail as required under Solvency II. Therefore, the form will need to be revised.

Form D5: Values of Collective Investment Schemes on balance sheet

This is a new reporting requirement at this level of detail.

Form E1: Life technical provisions

This data will be required to be reported using the Solvency II basis of determining technical provisions thus will be additional information to be collected from life syndicates.

Form E2: Non-life technical provisions

This data will be required to be reported using the Solvency II basis of determining technical provisions thus will be additional information to be collected from non-life syndicates.

Form E3 Life: changes in own funds

This will be a new requirement for life syndicates only.

Form E4: Valuation basis – Non-life syndicates

This will be a new requirement for non-life syndicates only.

Form E5: Valuation assumptions – life syndicates

This will be a new requirement for life syndicates only.

Form F1: Life revenue analysis

QMA281 collects some of this data at present; however it will be necessary to expand this form in order to report the full form on a basis.

Form F2: Life premiums

This data will also be collected based on an expansion of the current QMA281.

Form F3: Non-life technical account per line of business

It is envisaged that this data will be collected via the SRD, which will need to be modified to reflect the Solvency II basis of setting technical provisions.

Form F4: Distribution of profits for with profit funds

This form is not applicable to the type of life business underwritten at Lloyd's.

Form F5: Non-life insurance premium information

It is envisaged that this data will be collected via the SRD, which will need to be modified to reflect the Solvency II basis of setting technical provisions. It is likely that the historic data from 2003 to 2011 will be collected via a one off exercise.

Form F6: Non-life insurance Gross expense information

It is envisaged that this data will be collected via the SRD, which will need to be modified to reflect the Solvency II basis of setting technical provisions. It is likely that the historic data from 2003 to 2011 at line of business level will be collected via a one off exercise.

Form G1: Life liability analysis

This is a new data requirement in respect of life syndicates.

Form G2: New life business analysis

This is a new data requirement in respect of life syndicates.

Form G3: Non-life Insurance Premium information

This is a new data requirement in respect of non-life syndicates.

Form G4: Projection of future cash flows

This is a new requirement for all syndicates.

Form H1: Non-life IBNR

This analysis by reporting year and line of business, and by number of claims, is new.

Form H2: Gross claims outstanding

This analysis by accident year, line of business and currency, and by number of claims, is new.

Form H3: Non-Life Insurance claims information

It is anticipated that this data be collected from the SRD, which will need to have its specification modified accordingly.

Form H4: Information on annuities and life-like liabilities stemming from Non-life insurance claims

This is a new requirement but unlikely to be relevant at Lloyd's.

Form H5: Non-life Insurance Exposure & Claims Numbers

This is a new requirement.

Form J1: Risk Profile

Form J2: Loss Profile

Form J3: Facultative risks non-life (10 biggest)

Form J4: Share reinsurers

Form J5: Outgoing Reinsurance Program in the coming accounting year

All of the above forms represent new data reporting requirements.

APPENDIX 8C

EXAMPLES WHERE A REVISED SYNDICATE SCR WILL BE REQUIRED

A. Addition of new class of business

Application 1 April

First business written 1 July

Requirements

New SBF submitted in April

- Must reflect new business class
- Should not reflect non-material changes elsewhere arising from differences in actual vs. expected to end-March
- Should not reflect non-material changes elsewhere arising from changes in prospective expectations over April to December

New SCR submitted 1 April

- Must include new business class on annualised basis, as though first written on 1 January
- RI protection for the new class must be included on basis consistent with 1 January start
- All other aspects of the SCR to be consistent with earlier submission

Managing agent board to assess whether SCR calculated on the basis above represents an adequate proxy for the SCR over the next 12 months:

- Yes: approve the SCR and submit for authorisation by Lloyd's
- No: identify area(s) where it is not an adequate proxy and amend accordingly

B. Reinsurance programme significantly different to plan

Identified in January

Requirements

New SBF submitted 1 February:

- Must reflect amended reinsurance programme
- Should not reflect non-material changes elsewhere arising from differences in actual vs. expected to end-January
- Should not reflect non-material changes elsewhere arising from changes in prospective expectations over February to December

New SCR submitted 1 February:

- Must reflect amended reinsurance programme as though calculated on 1 January
- All other aspects of the SCR to be consistent with earlier submission

Managing agent board to assess whether SCR calculated on the basis above represents an adequate proxy for the SCR over the next 12 months:

- Yes: approve SCR and submit for authorisation by Lloyd's
- No: identify area(s) where it is not an adequate proxy and amend accordingly

C. Mega-catastrophe

Loss event 30 June

Requirements

Decide if new SBF required

Decide if underwriting risk in SCR remains an adequate proxy for the next 12 months, given changes in market ensuing from catastrophe event (a given if new SBF required):

- Must reflect material changes to prospective expectations ensuing from the catastrophe event on an annualised basis, as though event occurred on 31 December of prior year
- Should not reflect non-material changes elsewhere arising from differences in actual vs. expected to end-June
- Should not reflect non-material changes elsewhere arising from changes in prospective expectations over next 12 months

Decide if reserving risk in SCR remains an adequate proxy for the next 12 months, given the change in risk profile arising from reserves associated with the catastrophe event:

- Must reflect material changes to prospective expectations ensuing from catastrophe event on an annualised basis, as though event occurred on 31 December of prior year
- Should not reflect non-material changes elsewhere arising from differences in actual vs. expected to June
- Should not reflect non-material changes elsewhere arising from changes in prospective expectations over next 12 months

Managing agent board to assess whether SCR calculated on the basis above represents an adequate proxy for the SCR over the next 12 months

- Yes: approve SCR and submit for authorisation by Lloyd's
- No: identify area(s) where it is not adequate proxy and amend accordingly

D. Strengthening of USD vs. GBP

Reaching parity over year to 30 June

Requirements

Decide if SCR remains an adequate proxy for next 12 months, given change in risk profile in GBP-terms arising from strengthening of USD:

- Must reflect new exchange rate as though effective from 1 January
- Should not reflect non-material changes elsewhere arising from differences in actual vs. expected to end-June
- Should not reflect non-material changes elsewhere arising from changes in prospective expectations over next 12 months

Managing agent board to assess whether SCR calculated on the basis above represents an adequate proxy for the SCR over the next 12 months:

- Yes: approve SCR and submit for authorisation by Lloyd's
- No: identify area(s) where it is not an adequate proxy and amend accordingly

APPENDIX 8D

LLOYD'S INTERNAL MODEL (LIM) SOLVENCY II DATA REQUIREMENTS

This appendix discusses the data needed to calibrate the Lloyd's internal model; it does not discuss the stress tests or other supporting data Lloyd's may require from agents.

Data requirements set out below are compared to the requirements set out in CEIOPS DOC50/09 and Annex D of CP58 to illustrate where these differ. There are data items listed that will be input into the Lloyd's Internal Model with no adjustments required (such as an agent's own estimate of the risk margin); not all of these are included here.

Risk Category	Detail	Regulatory reporting requirements (CP 58)*	Proposed LIM Requirements
Total (Aggregate Risk) Distribution – SCR	Granularity Time horizon Return periods Other statistics	N/A One year Mean, 99.5th	N/A One year and ultimate Mean, 99.5th Other percentiles, e.g. 75th, 80th, 90th, 95th, 99th percentiles
Attritional (Non cat) Risk - NLpr	Granularity Time horizon Return periods Other statistics	Reserving, premium One Year Mean, 99.5th	YOA, discounted and undiscounted One year and ultimate Mean, 99.5th Other percentiles, e.g. 75th, 80th, 90th, 95th, 99th percentiles
Cat Risk - NLcat	Granularity Time horizon Return periods Other statistics	Reserving, premium - all cats combined One year Mean, 99.5th	All percentiles by Exposure Management COB for nat cat; 99.5th for all event risk combined One year and ultimate Mean, 99.5th Other percentiles, e.g. 75th, 80th, 90th, 95th, 99th percentiles
Ins Risk – SCR_{NL}	Granularity Time horizon Return periods Other statistics	Reserving, premium One year Mean, 99.5th	Solvency II COB One year Mean, 99.5th Other percentiles, e.g. 75th, 80th, 90th, 95th, 99th percentiles
RI Credit Risk - SCRdef	Granularity Time horizon Return periods Other statistics	For each reinsurer NA Mean	Exposure and loss by each major reinsurer, incl. a split of RI within/outside Lloyds One year and ultimate 99.5th Other percentiles, e.g. 75th, 80th, 90th, 95th, 99th percentiles

Risk Category	Detail	Regulatory reporting requirements (CP 58)*	Proposed LIM Requirements
Credit Risk - Market - Mktsp (spread risk)	Granularity Time horizon Return periods Other statistics	Spread risk One year Mean, 99.5th	 One year and ultimate Mean, 99.5th Other percentiles, e.g. 75th, 80th, 90th, 95th, 99th percentiles
Market - SCRMkt exc Mktsp	Granularity Time horizon Return periods Other statistics	Non-spread risk. Exposure information by class of financial instrument. One year Mean, 99.5th	Aggregate One year and ultimate Mean, 99.5th Other percentiles, e.g. 75th, 80th, 90th, 95th, 99th percentiles
Asset Exposure Information (Market and Credit)		Market risk information on instruments including, for example, rating, currency, which exchange listed on (if any), internal rating, duration	Together with asset details shown in CP 58 reporting template Annex D, Lloyd's may need a split of assets by YoA. Target asset allocation.
Operational Risk - SCRop	Granularity Time horizon Return periods Other information	Aggregate (B2A) One year 99.5th NA	Aggregate One year 99.5^{th}
Liquidity	Granularity Time horizon Return periods Other information	NA NA NA NA	Expected to be incorporated in market risk. Lloyd's will require an estimate of its proportion of market risk.
Group	Granularity Time horizon Return periods Other information	NA NA NA NA	Expected to be incorporated in operational risk. Lloyd's will require an estimate of its proportion of operational risk.

(*) - items in () refer to CP 58, Annex D template subsections, as referred to in CEIOPS DOC-50/09