
Pillar 3 market briefing

10 March 2017

Agenda

- Overview and current status
- Quarterly reporting for Q4 2016 - review
- Full annual reporting as at 31 December 2016
- Coverholder reporting - update
- Reporting developments for 2017
- Wrap up and questions

Overview and current status



Pillar 3 quarterly reporting now well established – first set of full annual reporting coming up!

Return	Reporting date	Deadline date for syndicates	Deadline date for Lloyd's	Status
Day 1 reporting	31 Dec 2015	7 April 2016	20 May 2016	Successfully completed
Q1 reporting	31 March 2016	5 May 2016	26 May 2016	Successfully completed
Q2 reporting	30 June 2016	5 August 2016	25 August 2016	Successfully completed
Q3 reporting	30 Sept 2016	3 November 2016	25 November 2016	Successfully completed
Q4 reporting	31 Dec 2016	2 February 2017	24 February 2017	Successfully completed
Full annual reporting	31 Dec 2016	6 April 2017	19 May 2017	Forthcoming Forms and instructions on lloyds.com CMR software now live

Quarterly reporting for Q4 2016 - review

Progress of Pillar 3 quarterly reporting so far

- Syndicates have met quarterly reporting deadlines so far
- A high number of queries continue to be raised by Lloyd's

Quarter	Queries (no of returns)	Resubmissions
Q1	76 (75% QAD)	65 (69% QAD)
Q2	60 (67% QAD)	44 (61% QAD)
Q3	60 (75% QAD)	23 (52% QAD)
Q4	87 (48% QAD)	55 (29% QAD, 36% solely due to QSR293 not having been submitted)

Main reasons for Q4 resubmissions

- Balance sheet (QSR002) must agree to asset listing (QAD230) by asset category at syndicate level
 - From Q4, returns are automatically rejected by the PRA if this is not the case
 - Must agree exactly – no tolerance allowed
 - Agents responded well to this – only **4** resubmissions were required
- Other reasons for resubmission
 - New form QSR293 duration of technical provisions not completed (26)
 - Changes to asset codings, reporting format for rate and percentage on QAD
 - Inconsistency between QSR002 and other QSR/QAD forms

Full annual reporting

As at 31 December 2016



Full Pillar 3 annual reporting first starts as at 31 December 2016

- For each syndicate, the following is expected via the CMR
 - Annual Solvency Return Part A (ASR)
 - Annual Solvency Return Part B (ASB) (claims development triangles)
 - Annual Asset Data (AAD)
- National Specific Templates (NSTs) are required to be submitted to Lloyd's using standard excel templates via the Secure Store
- The PRA's Standardised Risk Information is now part of Pillar 3 reporting
- There is no syndicate level narrative reporting required
- Deadline for submission to Lloyd's: **6 April 2017**
- Lloyd's must submit aggregate and syndicate level data to the PRA by **19 May 2017**

Pillar 3 annual reporting

Which forms are new – i.e. not collected in QSR or QAD?

Data description	Form reference
Off-balance sheet items	ASR210
Variation analysis (Solvency II 'profit and loss') (only from December 2017)	ASR225 to 228
Technical Provisions – further analysis by line of business	ASR241
Best estimates by country	ASR242/281/284
Projection of future cash flows	ASR244/286
Distribution of claims incurred (needing access to claim level data)	ASR249/250
Analysis of underwriting risks (needing access to policy level data)	ASR251/252
Assets and liabilities by currency (collected in the 31.12.2015 interim reporting)	ASR260
Life obligation analysis	ASR288
Information on annuities	ASR289
Share of reinsurers	ASR290/300
Activity by country (EEA member analysis)	ASR430/431
Premiums, claims and expenses by country	ASR441/451
Solvency Capital Requirement (collected in Day 1 reporting)	ASR522
Claims development triangles	ASB245 to 248
Structured products data	AAD232
Investment income/gains and losses in the period	AAD235
Securities Lending and Repos	AAD237
Assets held as Collateral	AAD238

Some ASR forms are subject to audit¹

Form description	ASR reference
Balance sheet ²	ASR002
Own funds	ASR220
Non-life technical provisions by class ²	ASR240
Life technical provisions ²	ASR280
Health SLT technical provisions ²	ASR283
Minimum Capital Requirement (Non-life)	ASR510
Minimum Capital Requirement (Life)	ASR511
Managing Agent's Report	ASR910

¹ Reasonable assurance audit

² Excluding the risk margin as that is dependent on the SCR produced by the internal model

National Specific Templates are required to be submitted in Excel

Using PRA specific 'XBRL enabled' templates

- NST Excel templates, PRA LOG files and Lloyd's specific instructions available on lloyds.com
- PRA require submission using 'XBRL enabled' Excel templates
 - Format is mandated by the PRA and may not be changed
- NST910 'Managing agent report' required for each syndicate
 - To be signed by Directors and submitted to Lloyd's by PDF
- These are to be submitted to Lloyd's using 'SecureStore'
 - Web-based facility that allows managing agents to exchange files with Lloyd's securely
 - All syndicates are already set up to use the system
 - User access is through lloyds.com account
 - Further details can be found at <http://www.lloyds.com/the-market/tools-and-resources/tools-e-services/secure-store>

Which NSTs apply to syndicates?

PRA reference	Description	Required at syndicate level?
NS.01	With profits value of bonus	No
NS.02	With profits assets and liabilities	No
NS.03	Material pooling arrangements	No
NS.04	Assessable mutuals	No
NS.05	Revenue account (life)	Yes – life syndicates
NS.06	Business model analysis (life)	Yes – life syndicates
NS.07	Business model analysis (non life)	Yes – non life syndicates
NS.08	Business model analysis (financial guarantee)	Only for financial guarantee – probably does not apply for syndicates
NS.09	Best estimate assumptions (life)	Yes – life syndicates
NS.10	Projection of future cash flows (best estimate – non-life: liability claim types)	Yes – non life syndicates
NS.11	Non-life claim development information (general liability sub-classes)	Yes – non life syndicates
NS.12	Society of Lloyd's solvency capital requirement	No – centrally completed
NS.13	Society of Lloyd's minimum capital requirement	No – centrally completed

Syndicate internal model outputs now confirmed

Now part of Pillar 3 annual reporting exercise

- Requirements for 31 December 2016 confirmed by PRA SS25/15 (updated)
- Agents advised via market email 23 February
- Outputs for one year and to ultimate still required for non-life syndicates
 - But within one expanded workbook
- Separate workbook for life syndicates
- Additional workbook for counterparty risk must be completed by each syndicate
- Outputs must be reviewed by a named individual
- Deadline for submission aligned with Pillar 3 annual reporting – 6 April 2017
- Please submit by email to SCRReturns@lloyds.com
- More information at:
http://www.bankofengland.co.uk/pru/Pages/regulatory_data/insurance/reporting.aspx (see bottom of page)

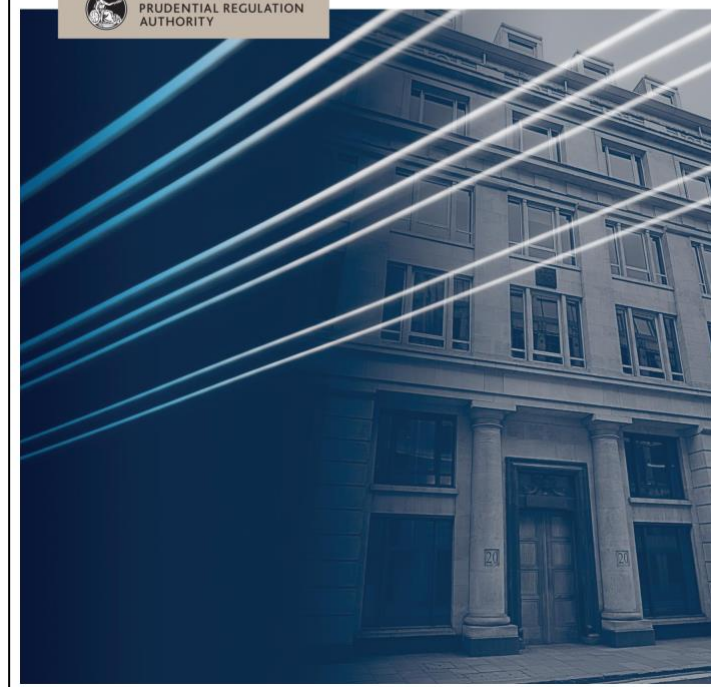
Supervisory Statement | SS25/15
Solvency II: regulatory reporting,
internal model outputs

February 2017

(Updating June 2015)



BANK OF ENGLAND
PRUDENTIAL REGULATION
AUTHORITY



Challenges in completion of PRA Internal Model Outputs templates

Based on completion from the Lloyd's Internal Model output 2016

- Two main challenges
 - Very high quantity of model outputs required, including many not matching exact modelled points within the internal model
 - Significant model flow configuration changes impacting model run time in order to get appropriate output, due to increase in data volumes required across whole modelled market. This included keeping class of business split through entire model flow and simulation level output for e.g. skewness and kurtosis
- Other challenges
 - Mapping from classes of business to required Solvency II lines is required which proves difficult to do meaningfully due to large overlap with business classes
 - Template requires separate outputs from component model owners, so transformations replicating calculation kernel calculations also required for providing additional granularity splits
 - Template definitions from SRI and internal model outputs have changed each year, requiring a change in process each year for model reporting and/or template completing
 - Completion of an Excel template is not well suited for programmatic well defined reporting from model outputs

Common issues from 2016

Feedback from the PRA

- Catastrophe risk
 - Premium and sum insured data not split between perils
 - Catastrophe GWP entered in £000's not £m
 - Frequently arising issue of data (premium/loss) not being provided
- Reserve risk
 - Same distribution for one-year and ultimate basis reported
- Premium risk
 - Earned premiums by own class do not add up to aggregate
- Premium and Reserve Risk
 - No distributions by Solvency II classes provided

Some technical issues to note

- ASR002 and QMC002 are both subject to audit and we expect the results by syndicate year to be the same
- ASR025, 026 and 027 (selection of lines of business/currency) should be completed prior to uploading CSV data
- LORS code reference table to assist managing agents for completing ASR290 / 300 will be distributed and included in FAQs
- ASR290 / 430 / 430s should be completed by Non-life syndicates including Annuities stemming from non-life contracts.
- ASR300 / 431 / 431s should be completed by Life syndicates only
- Material countries to be reported in ASR430 / 431 / 441 / 451 have been revised – see FAQ
- Some uncertainty by managing agents on how to categorise business for ASR430 / 430s / 431 / 431s. Please consult FAQs and if still unclear email us
- ASB245 to 247 is required in **original** currency, with the total for all currencies combined in converted GBP
- Issues have been identified in NST templates. PRA shall be providing updated templates shortly

Pillar 3 forms and instructions available on lloyds.com

- Forms and instructions for annual and quarterly Pillar 3 reporting are posted on lloyds.com
 - <http://www.lloyds.com/the-market/operating-at-lloyds/solvency-ii/information-for-managing-agents/guidance-and-workshops/reporting-and-disclosure>
- FAQs shall continue to be provided via CMR system
- CMR software for annual reporting now live
- Please send queries via email to lloyds-solvencyreturns@lloyds.com

Coverholder reporting - update

Lloyd's unique position with respect to delegated authorities presents unique challenges

- The Lloyd's market is unique in the large number of coverholders to whom authority has been delegated. There are around 4,000 of these.
- Inclusion of the open claims at the start of 2016 and any risks and claims written in 2016 means that in excess of 30,000 binding authority agreements have been recognised as being in scope.
- Previously the level of detail required was not needed and systems and processes have not traditionally been in place to capture this.
- Delegated authorities business in the Lloyd's market typically involves a longer chain of intermediaries before data arrives at the syndicate.
- The sheer volume of data presents challenges with '000s of risks and claims typically being associated with each binding authority.
- Data arrives in many different formats with some being paper based, or in PDFs, creating difficulties in terms of processing.
- Reporting tends to be done on a bulk bordereaux basis 30-90 days after the end of the month presenting challenges for the timeliness of reporting.
- Whilst data may have arrived in London, the complexities described above may mean it is not available in a manner which can be used to support Solvency II reporting.

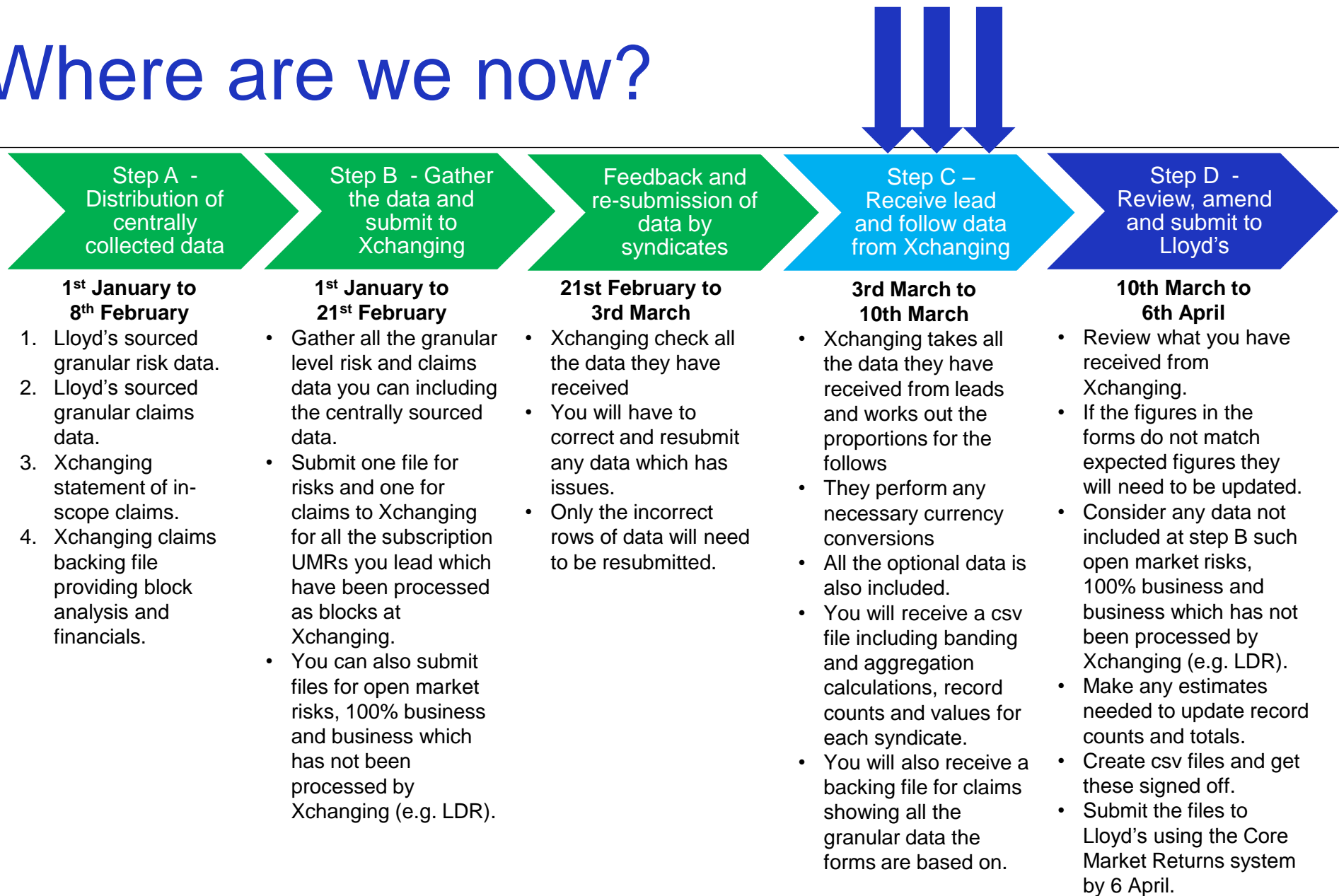
The challenge for delegated authority business

- Data required at a granular level that has never been asked for before.
- Some data fields not considered of use to day to day management of the book.
- Sum insured presents particular difficulties, there are often limits for the whole binding authority, and there may be multiple limit for risks. Significant variations in what is typically received for different classes of business.
- A large proportion of delegated authority business takes place outside of Europe, for example in the US, Canada and Australia where different regulatory requirements apply.
- Feedback from the market following initial approach to coverholders.
- Recognition of the commercial risk of seeking data from the coverholders.
- For some syndicates, reporting will have to be based on 30 September for cut-off purposes.

The Xchanging Solvency II Pillar 3 Risk and Claims Service

- Central service provider Xchanging provides settlement and reporting services to the Lloyd's market.
- For the open market Xchanging has details of all risks and claims processed individually.
- For delegated authorities business all risks and a large proportion of claims are processed on a block basis and Xchanging does not capture the details of individual risks and claims required to complete the Solvency II returns.
- Lloyd's is a subscription market. Each binding authority can be between one or more syndicates and the coverholder.
- A service has been set-up where the lead syndicate for each binding authority is responsible for submitting detailed risks and claims data to supplement the blocks to Xchanging.
- Xchanging are responsible for calculating the proportions for each syndicate based on their line, or % of the underlying binding authority agreement.
- Xchanging undertake some other required calculations and then distribute data to both lead and following syndicates.

Where are we now?



The journey so far

- Claims data presented more challenges. Some clear difficulties getting data for older claims, line-slips and from TPAs.
- Where a binder has a lead outside the Lloyd's market, the lead syndicate within the Lloyd's market has not always realised they are the Lloyd's lead.
- Typical processes of handling risks and premiums and assigning risk codes mean there could be differences between the risk codes at Xchanging and those held by the lead managing agent.
- Formatting issues were a common problem.
- The step B timetable was extended for data submission by managing agents until 5pm on Monday 6 March.
- The next step will be to issue the step C csv files and step C backing data to the Market. In addition an analysis of average claims size per Solvency Class will be provided upon request.
- Managing agents have experienced significant challenges collecting older UMR claims data.

So what did get submitted?

- Around 146,000 rows of claims data were submitted in the dry run; around 600,000 rows have been submitted to the live process.
- Data has been provided for around 32% of block binding authority business and together with the addition of non block data provided by Xchanging will result in coverage of approximately 45% of binding authority business, this will be increased at a market level where managing agents only submit data at Step D. It is possible that some late data corrections may further increase these percentage figures.
- Data has been provided for around 31% of block line slips and together with the addition of non block data provided by Xchanging will result in coverage of approximately 80% of lineslips.
- Some main business also has a block element, 33% of this block business has been populated, but the large amount of non block business will increase the coverage to 74% of main business processed via Xchanging.
- There are a significant number of contracts that are not processed via Xchanging and are written as singleton business. This will help increase the overall percentage of contracts completed by the Market.
- A large volume of risk data has been submitted that will help determine the overall risk profile for each managing agent.
- Overall the volumes of data provided will be sufficient for managing agents to be able to estimate the missing data required to be reported.

Reporting developments for 2017



What is changing for Q1 2017 QSR and QAD?

- **QSR**
 - QSR292 and QSR293 are not required for Q1 submission. Please leave them blank
- **QAD**
 - Clarification on Reverse Repurchase agreements and property funds
 - Clarification on use of S/M/O level of look-through on QAD236
 - Added validation for specific CIC codes
- Deadline for submission: **Friday 28 April 2017**

The QMC is being absorbed into QSR from June 2017

- QSR002 will show UK GAAP position, changes and Solvency II position as per QMC
- QMC210 incorporated into QSR as QSR210
- QMC923 incorporated into QSR as QSR923 (required at Q4 only)
- QSR continue to be initially submitted unaudited at 'QSR' deadlines
- Audit requirement on Q2 and Q4 submissions only at 'QMC' deadlines
 - Audit report required only
 - Unless QSR002 or QSR210 have changed following audit in which case the whole QSR must be resubmitted
 - Initial QSR002 and QSR210 encouraged to be final!

Variation analysis forms will be required for 2017 annual reporting

These forms analyse movement in Solvency II balance sheet

ASR reference	Description
ASR225	Excess of assets over liabilities
ASR226	Excess of assets over liabilities - explained by investments and financial liabilities
ASR227	Excess of assets over liabilities - explained by technical provisions
ASR228	Detailed analysis per period - technical flows versus technical provisions

Pillar 3 timescales for 2017

Reporting date	Return	Audited?	Deadline
31 March 2017	QSR and QAD	No	28 April 2017
30 June 2017	QSR and QAD	Partly ¹	28 July 2017 (unaudited) 31 August 2017 (audited) ¹
30 September 2017	QSR and QAD	No	27 October 2017
31 December 2017	QSR and QAD	Partly ¹	29 January 2018 (unaudited) 1 March 2018 (audited) ¹
31 December 2017	ASR, ASB and AAD ²	Part of ASR only	29 March 2018

¹ Audit applies to 'Ex QMC' elements only (QSR002 and QSR210)

² Also National Specific Templates (NSTs) and Standardised Risk Information(SRI)

The timescales continue to get tighter to 2019...

	Deadline after reporting date (weeks)			
	2016	2017	2018	2019+
Syndicate reporting to Lloyd's				
Quarterly	5	4	4	3
Annual	14	13	11	10
Lloyd's reporting to PRA				
Quarterly	8	7	6	5
Annual	20	18	16	14

Wrap up and questions

LLOYD'S