



PILLAR 3: THE START OF LIVE REPORTING

Market briefing

19 April 2016

AGENDA

- ▶ **Overview and current status**
- ▶ **Day 1 reporting as at 31 December 2015**
- ▶ **Quarterly reporting from Q1 2016**
- ▶ **Progress towards annual reporting**
- ▶ **PRA National specific templates**
- ▶ **Wrap up and questions**

After a very long journey...

- ▶ **Consultation on requirements since 2006:**
 - CEIOPS and EIOPA consultation papers

- ▶ **Finalisation of legislative framework:**
 - Framework Directive (2009/138/EC) – high level requirements (Articles 35, 51 to 56)
 - Delegated Act (Commission Delegated Regulation (EU) 2015/35)
 - Public qualitative reporting (Articles 290 to 303)
 - Private supervisory reporting (Articles 304 to 311)
 - Deadlines (Article 312)
 - EIOPA Implementing Technical Standards
 - Reporting templates and LOG files (instructions)

- ▶ **Interim reporting** under EIOPA Guidelines:
 - 31 December 2014
 - 30 September 2015

...it is now time for full Pillar 3 reporting

Pillar 3 at Lloyd's is a two step process with syndicates reporting to Lloyd's...

- ▶ Syndicates submit Pillar 3 data via **Core Market Returns (CMRs)**
 - Annual Solvency Return (ASR)
 - Annual Asset Data (AAD)
 - Quarterly Solvency Return (QSR)
 - Quarterly Asset Data (QAD)

- ▶ Lloyd's
 - Reviews each return and prepares an aggregate return for Lloyd's including central data eg Central Fund
 - Submits public annual aggregate 'Solvency and Financial Condition Report' to PRA
 - **Submits syndicate level data which remains private for PRA only**

...which Lloyd's reviews, aggregates with central data and submits to PRA

Lloyd's has introduced Pillar 3 reporting step by step

Template	Return	Since (reporting date)	Purpose
Technical provisions data	TPD ¹	Dec 2010	Experience of preparation of Solvency II technical provisions; review as part of capital setting exercise (from 2013)
Solvency II balance sheet	QMC ²	Dec 2011	Experience of preparation of Solvency II balance sheet; member level capital setting (from 2013)
List of assets, derivatives and investment funds (look though)	QAD/AAD	Dec 2012	Capital setting (Lloyd's Investment Risk Model)
SCR from internal model	LCR ³	2013	Member level capital setting
Interim reporting	AAD/ASR	Dec 2014	PRA interim reporting requirements
Interim reporting	QAD/QSR	Sept 2015	PRA interim reporting requirements

¹ Technical Provisions Data

² Quarterly Monitoring Return Part C

³ Lloyd's Capital Return

Pillar 3 requirements for 2016

Reporting date	Submission	Syns submit to Lloyd's	Lloyd's submits to PRA	Lloyd's submits to PRA – FSR ¹
31 Dec 2015	'Day 1' Pillar 3 returns	7 April 2016	20 May 2016	N/A
31 Mar 2016	First full Pillar 3 quarterly return – Q1 2016	5 May 2016	26 May 2016	9 June 2016
30 June 2016	Quarterly reporting – Q2 2016	4 Aug 2016	25 Aug 2016	8 Sept 2016
30 Sept 2016	Quarterly reporting – Q3 2016	3 Nov 2016	25 Nov 2016	9 Dec 2016
31 Dec 2016	Quarterly reporting – Q4 2016	2 Feb 2017	25 Feb 2017	11 Mar 2017
31 Dec 2016	First full annual return – 2016	6 April 2017	19 May 2017	

¹ Financial Stability Reporting – only applicable at Lloyd's level but needs aggregate syndicate data collected in Pillar 3 returns

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Day 1 reporting (ie as at 31 December 2015) is a small subset of annual templates

QSR reference	EIOPA reference	Description
QSR002	S.02.01.02	Balance sheet
QSR220	S.23.01.01	Own funds
QSR510	S.28.01.01	Minimum capital requirement – Non-life
QSR511	S.28.01.01	Minimum capital requirement – Life
QSR522	S.25.03.01	Solvency capital requirement – full internal model

Syndicate Day 1 returns were submitted on time...

- ✓ Syndicate return software worked well and was stable
- ✓ Most agent queries were raised early
- ✓ All returns were submitted on time – thank you!
- ✓ All QSR002 balance sheets agreed with QMC submissions

- ✗ Lloyd's raised queries with 16 syndicates following review of the returns
 - SCR on QSR220 own funds and/or QSR522 SCR did not agree to SCR agreed by Lloyd's
 - Significant difference on net written premiums between QSR510 MCR and QMA (recognising that this is Solvency II basis v UK GAAP)
 - Significant differences on foreseeable distributions between QSR220 and QMA

...and with relatively few queries on review

Syndicates also required to submit internal model outputs as part of 'Day 1' reporting

- ▶ PRA collecting internal model outputs from each UK supervised entity
- ▶ Lloyd's co-ordinating exercise for all syndicates
 - Email sent to all Solvency II contacts 16 March
- ▶ Exercise is similar to 'Standardised Risk Information' previously collected
- ▶ Please complete two versions of the workbook as at 31 December 2015
 - One year time horizon
 - To ultimate
- ▶ This will generally be based on your SCR for 2016 approved by Lloyd's as at 31 December 2015
 - Please contact us if you think an alternative approach is appropriate
- ▶ A sign-off by a named individual is required on the 'NL-IMS-11' template
- ▶ Please submit completed workbooks to **Lloyd's**:
 - Lloyds-SolvencyReturns@lloyds.com
 - **By 9 May 2016**

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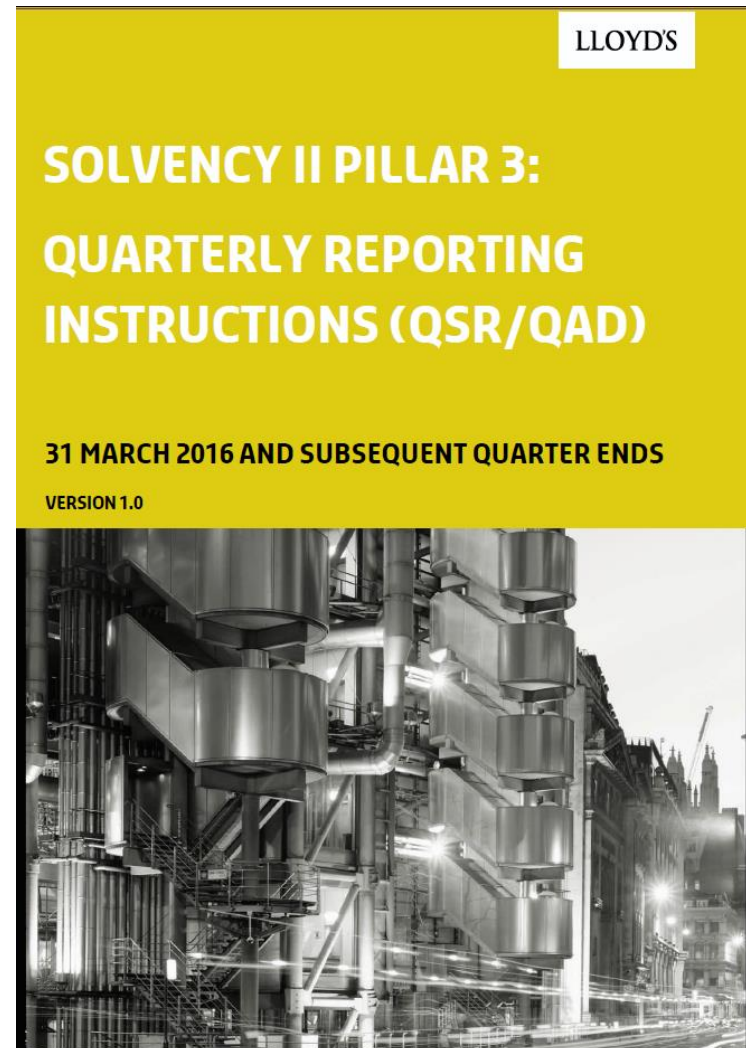
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Full quarterly reporting applies from Q1 2016

QSR/QAD reference	EIOPA reference	Description
QSR002	S.02.01.02	Balance sheet
QSR204	Lloyd's specific	Members providing capital (FIS)
QSR220	S.23.01.01	Own funds
QSR240	S.17.01.02	Non-life technical provisions by line of business
QSR280	S.12.01.02	Life technical provisions
QSR283	S.12.01.02	Health SLT technical provisions
QSR291	S.40.01.11	Lapses (life business only) – only for Financial Stability Reporting
QSR440	S.05.01.02	Premiums, claims and expenses by line of business – Non-life
QSR450	S.05.01.02	Premiums, claims and expenses by line of business - Life
QSR510	S.28.01.01	Minimum capital requirement – Non-life
QSR511	S.28.01.01	Minimum capital requirement – Life
QAD230	S.06.02.01	Investment data – portfolio list
QAD233	S.08.01.01	Derivatives data – open positions
QAD234	S.08.02.01	Derivatives transactions
QAD236	S.06.03.01	Investment funds (look-through approach)

QSR/QAD instructions published in mid March

- ▶ Instructions for QSR and QAD emailed to agents on 18 March 2016
 - Version 1.0
- ▶ Instructions and form specifications available on CMR system
- ▶ These apply for all QSR/QADs going forward, not just Q1
 - But will be reviewed regularly



Please submit return using CMR system

- ▶ **QSR** for Q1 available in UAT until 22 April
 - Day 1 returns held in live QSR until then
 - Please use **UAT** version to prepare Q1 QSR
 - Please use **live** system available from 25 April for finalisation and submission to Lloyd's

- ▶ **QAD** for Q1 now available in UAT
 - Available live from 25 April

- ▶ Electronic submission required only – with hard copy QSR910 and QAD910 managing agent's reports required

Please submit by Thursday 5 May – thank you!

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Full annual reporting requirements are much more extensive than quarterly reporting

Quarterly and annual

- Balance sheet
- Premiums, claims and expenses
- **Assets – at security level**
- **Derivatives**
- Own Funds (tiering)
- MCR
- Technical provisions by class/**currency**

Annual only

- **SCR**
- **Claims triangulations**
- **Analysis of claims incurred**
- **Reinsurance**
- **Risk concentrations**
- **Participations**
- **Balance sheet by currency**
- **Off balance sheet data**
- **Activity by country**
- **Valuation movement/reconciliation**

Red items – new/significantly enhanced from current **annual** requirements

What is the timetable for completing our preparations for full annual reporting?

Date	Action
31 August 2016	Draft ASR and AAD forms and instructions available
19 October 2016	Market briefing
31 October 2016	Final ASR and AAD forms and instructions available – reflecting market feedback
1 November 2016	CMR ASR and AAD software available for market UAT
1 January 2017	CMR ASR and AAD live software available
2 February 2017	Deadline for 31 December 2016 QSR and QAD
6 April 2017	Deadline for 31 December 2016 ASR and AAD

Lloyd's still seeking central solution to assist agents with binder reporting

- ▶ ASR249, 250 and 252 requires access to look through data on claims and policies written – including for binder data
- ▶ Lloyd's planned a dry run for June 2016
- ▶ Following concerns raised by the market Lloyd's
 - Advised agents to suspend work to collect data from coverholders on 24 March
 - Working with market to find one solution to the binder reporting challenge
 - Will inform market where binder data can be obtained centrally
- ▶ Dry run to go ahead as planned
 - Submission by leads of binder data is **optional** and managing agents will need to indicate readiness for producing binder data not produced for the dry run
 - Other non-binder data still required (this includes lineslips, open market, service companies)
 - Electronic format for agents to use to be provided by end of this week
- ▶ Intention to accelerate the TOM Delegated Authorities workstream for coverholder business
- ▶ Further details to be provided at a presentation on 29 April

Proposed audit requirements in line with Lloyd's existing requirements for syndicates

- ▶ Audit requirements are determined by each EU member state

- ▶ The PRA, in its consultation, proposed (for an internal model firm), audit of
 - Balance sheet¹
 - Analysis of capital (ie by Tier)
 - MCR
 - Any qualitative disclosures in relation to the above
 - Only for the annual SFCR

- ▶ Lloyd's will apply the same requirements to syndicates
 - Lloyd's has required audit of the half yearly syndicate Solvency II balance sheets since 2012¹

¹ The PRA's proposal and Lloyd's existing requirements for the audit of the balance sheet exclude the risk margin as this is dependent on the internally-modelled SCR

QMC still needed for Lloyd's capital setting

- ▶ QMC (Solvency II balance sheet) shall be retained for the foreseeable future
 - As at 30 June 2016 (deadline 1 Sept 2016)
 - As at 31 December 2016 (deadline 2 March 2017)

- ▶ QMC needed for Lloyd's capital tests so
 - Start point is UK GAAP (QMA) balance sheet
 - Sign-off by two directors
 - Audit required at 31 December (review at 30 June)

- ▶ Technical provisions must be determined in accordance with Lloyd's technical provisions guidance July 2015
 - Treatment of contract boundaries has particular impact

- ▶ QMC format will be aligned with QSR for December 2016

Financial Stability Reporting applies to largest undertakings including Lloyd's

- ▶ EIOPA approved the introduction of Financial Stability Reporting (FSR) across Europe in 2015

- ▶ The PRA consulted on FSR application in the UK in CP30/15, with the final requirements appearing in supervisory statement SS41/15¹

- ▶ The PRA wrote to UK firms in scope in late 2015

- ▶ FSR first applies at **31 March 2016**
 - First Lloyd's aggregate submission to be made by 9 June 2016
 - No syndicate level FSR submissions made to the PRA

¹ <http://www.bankofengland.co.uk/pr/Pages/publications/ss/2015/ss4115.aspx>

FSR reporting templates mainly based on EIOPA Pillar 3 templates

EIOPA reference	CMR reference	Description	Quarterly	Annual
S.02.01.02	QSR002	Balance sheet	X	
S.05.01.13	QSR440/ 450	Premiums, claims and expenses by line of business	X	
S.06.02.04	QAD230	List of assets	X	
S.14.01.10	ASR-TBA	Life obligations analysis ¹		X
S.23.01.13	QSR220	Own funds	X	
S.25.04.11	Sourced Separately	Solvency capital requirement ²	X	
S.38.01.10	ASR-TBA	Duration of technical provisions ¹		X
S.39.01.11	Sourced Separately	Profit and loss ¹	X	
S.40.01.10	ASR-TBA	Profit or loss sharing ¹		X
S.41.01.11	QSR291	Lapses ¹	X	

¹ Required for FSR **only**

² SCR sourced from Lloyd's Internal Model not syndicate level SCR submissions

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What are the PRA's National Specific Templates?

- ▶ PRA's PS2/15 sets out requirements for national specific templates (NSTs)
- ▶ Additional information required annually from 31 December 2016
 - For all UK supervised undertakings
 - And Lloyd's syndicates
- ▶ To be submitted in Excel using formats provided by PRA
- ▶ Instructions will be provided by 31 August 2016
- ▶ Deadline for submission to Lloyd's same as ASR/AAD
 - 6 April 2017



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
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

NST formats may be accessed here:

<http://www.bankofengland.co.uk/prs/Pages/publications/ps/2015/ps215a.aspx>

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The Pillar 3 reporting timetable continues to accelerate moving towards 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

...so you need to

- ▶ Continue to automate as much as possible
 - To speed up processes and reduce the risk of manual error
 - External Solvency II software products may assist

- ▶ Complete the identification and sourcing of data requirements

- ▶ Be clear on internal responsibilities and timescales for
 - Preparation
 - Review
 - Sign-off of returns

- ▶ Monitor resourcing and obtain additional staff as required
 - And complete training including for the Board

A summary of key Pillar 3 dates for 2016 for agents

Date	Action by	Event
25 April	Lloyd's	Full QSR and QAD CMR systems available live
5 May	Agents	Submit Q1 QSR and QAD – first full quarterly submission
9 May	Agents	Submit 'Day 1' internal model outputs workbooks
4 August	Agents	Submit Q2 QSR and QAD
31 August	Lloyd's	Draft full ASR and AAD forms and instructions available
1 September	Agents	Submit Q2 QMC
19 October	Both	Pillar 3 autumn market briefing
31 October	Lloyd's	Final full ASR and AAD forms and instructions available
1 November	Lloyd's	Full ASR and AAD CMR systems available for market UAT
3 November	Agents	Submit Q3 QSR and QAD
1 January 2017	Lloyd's	Full ASR and AAD CMR systems available live
2 February 2017	Agents	Submit Q4 QSR and QAD
2 March 2017	Agents	Submit Q4 QMC
6 April 2017	Agents	Submit Q4 ASR and AAD – first full annual submission Submit NSTs at 31 December 2016

Lloyd's here to help agents

- ▶ Your Risk Assurance account manager
- ▶ risk.assurance@lloyds.com
- ▶ lloyds-solvencyreturns@lloyds.com
- ▶ lloyds.com Solvency II pages
- ▶ Next Pillar 3 briefing: 19 October 2016

QUESTIONS?

