
Pillar 3 market briefing

19 October 2016

Agenda

- Overview and current status
- Progress so far in 2016 – Day 1 / Quarterly reporting
- Full annual reporting as at 31 December 2016
- Coverholder reporting - update
- Timetable for 2016 year end and 2017 onwards
- Wrap up and questions

Overview and current status



Pillar 3 reporting live from 2016

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	In progress – deadline soon Updated instructions issued early October
Q4 reporting	31 Dec 2016	2 February 2017	24 February 2017	Forthcoming
Full annual reporting	31 Dec 2016	6 April 2017	19 May 2017	Forthcoming Instructions and templates issued early August - Updates by end October CMR software in UAT from October Live CMT from January (AAD first)

Progress so far in 2016

Day 1 / Quarterly reporting

Progress of Pillar 3 reporting so far – Day 1 / Quarterly reporting

- Syndicates have met Day 1 and Quarterly reporting deadlines so far...
- ... but a high level of queries have been raised by Lloyd's

Return	Queries	Resubmissions
Day 1 QSR	16	8
Q1 QSR / QAD	76 (75% QAD related)	65 (69% QAD)
Q2 QSR / QAD	60 (67% QAD related)	44 (61% QAD)

- Main sources of Lloyd's queries have related to QAD
 - Consistency of detailed asset reporting compared with QSR balance sheet
 - Line by line asset reporting in QAD – detailed information for each asset

QSR002 **MUST** agree to QAD230 by asset category

Use the QAD230s playback summary to help you reconcile the submissions

- QSR002 must agree to QAD230 by asset category **at syndicate level**
- The PRA will query differences in their plausibility reviews
 - From Q4, returns shall be automatically **rejected** by the PRA if this is not the case

Asset category per QSR002	QSR002 line reference	CIC coding for QAD230
Property (other than for own use)	A7	##91, ##92, ##94 and ##99
Equities – listed / unlisted	A9 / A10	##3# / XL3# and XT3#
Government Bonds	A12	##1#
Corporate Bonds	A13	##2#
Structured notes	A14	##5#
Collateralised securities	A15	##6#
Investment funds (Equity, Debt, Money Market etc)	A17 – A25	##4#
Derivatives	A27 / A79	##A# to ##F#
Other investments	A29	##09
Loans & mortgages	A32 – A33	##8# (excluding ##86)
Loans on policies	A34	##86
Deposits to cedants	A44	##75
Cash & cash equivalents	A50	##71 and ##72

Revised instructions are available for Q3 QSR/QAD

- Revised instructions published early October on CMR website and lloyds.com
 - Going forward we will publish these no later than one month before reporting date
- No significant changes from Q2
- Summary of changes
 - QSR002/QAD230 – the aggregation of assets by asset category per QAD230 must agree to the QSR002 summary exactly. Please use the QAD230s playback summary form to assist you in this reconciliation
 - QSR002 – clarifications re CIC categorisation
 - QSR002 – treatment of BBNI provisions in technical provisions (same as QMC)
 - QSR510 and 511 – clarification re not reporting negative amounts for premiums or technical provisions by line of business
 - QAD230 – clarifications re asset reporting
 - QAD233 and 234 - clarifications re derivative reporting
 - QAD236 – clarifications re look through approach

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)
- In addition, National Specific Templates (NSTs) are required to be submitted to Lloyd's using standard excel templates
- Part of ASR is subject to audit
 - Scope now confirmed and as per ASR instructions issued in early August
- 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	ASR241/283
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	ASR260
Life obligation analysis	ASR288
Information on annuities	ASR289
Share of reinsurers	ASR290
Activity by country (EEA member analysis)	ASR430/431
Premiums, claims and expenses by country	ASR441/451
Solvency Capital Requirement (although 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 – form of opinion to be finalised Q4 2016

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
 - These will be issued by the PRA shortly and provided on lloyds.com
 - Content (spreadsheet cells) will not change
- NST910 'Managing agent report' required for each syndicate
 - To be signed by Directors and submitted to Lloyd's by PDF
 - Format available on lloyds.com
- PRA likely to require mandatory submission of NSTs using XBRL from 2017
 - For syndicates, this means NSTs will need to be reported via CMR

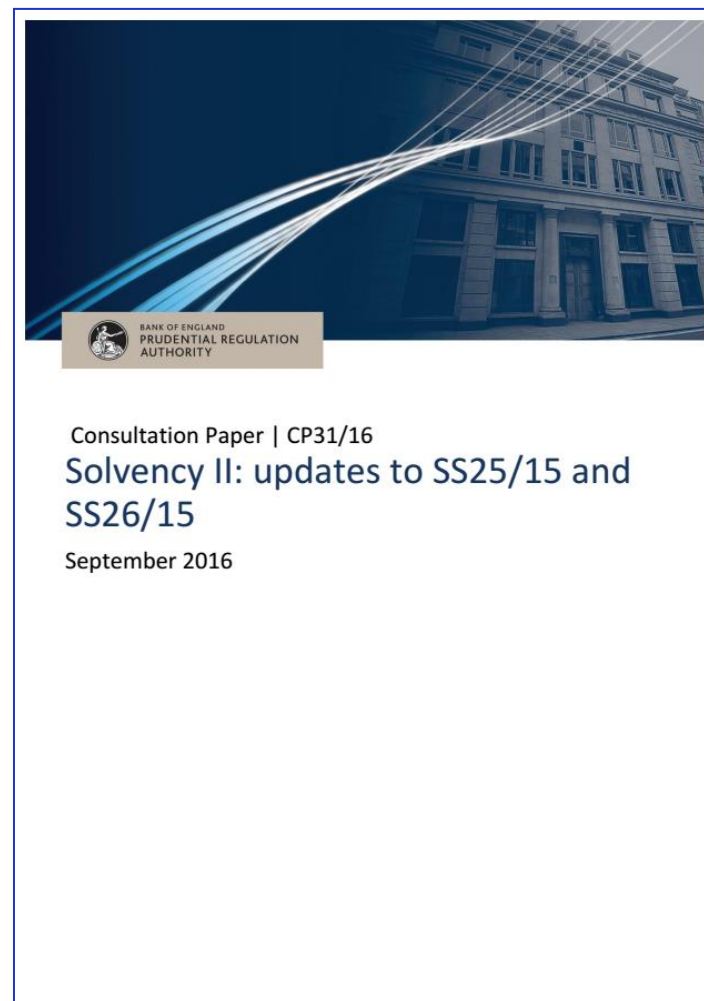
Which NSTs apply to syndicates?

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

Outputs from syndicate internal models will still be required

PRA consulting on 'successor to SRI' requirements

- Standardised Risk Information (SRI) will be required on an ongoing annual basis
 - Based on outputs from each syndicate internal model
- PRA consulting on revised requirements
 - Consultation closes 21 December 2016
- Lloyd's reviewing revised requirements in conjunction with LMA
- Each syndicate will be required to submit an Excel workbook to Lloyd's
- Deadline for submission aligned with Pillar 3 annual reporting – 6 April 2017



Annual Pillar 3 UAT has started

Participation by managing agents strongly encouraged

- CMR development is ongoing for annual reporting
 - ASB has been developed and currently in UAT
 - AAD planned to be released into UAT in Nov 2016
 - ASR planned to be released into UAT in Dec 2016 through to Jan 2017
- Please email steve.firdasaputra@lloyds.com if you wish to take part
- Live CMR will be available:
 - ASB – Jan 2017
 - AAD – Jan 2017
 - ASR – Feb 2017

Lloyd's held Pillar 3 meetings with small groups of agents...

- Informal discussion session regarding Pillar 3:
 - Experience so far
 - Preparations for annual reporting
- Small groups of no more than 10 managing agents with Lloyd's personnel
- Opportunity for agents to share experiences and concerns
 - And for feedback to be provided to and from Lloyd's

...at which a number of main themes arose...

Theme/issue	Lloyd's response
ASR225 to 228 - are the variation analysis forms needed at 31.12.2016 as this is the first full year of Solvency II reporting?	These forms are not required at 31.12.2016. They will be required annually from 31.12.2017.
ASB245 to 247 – what currency should be used to report the data when reporting material currency and overall?	<p>The analysis by material currency is required in original currency, with the total for all currencies combined in converted GBP.</p> <p>Historic data in triangles should be converted at current exchange rates.</p>
ASR290 – can CMR pre-populate certain fields based on LORS code? Also further clarification of requirements in instructions would be helpful (e.g. negative RI amounts?)	<p>Lloyd's is investigating functionality to auto-populate some fields based on LORS code.</p> <p>Lloyd's will revisit instructions and update where relevant.</p>
ASR430 – instructions are unclear. Can Lloyd's provide further clarification including worked examples?	Lloyd's will update instructions to provide further clarification. We shall also attempt to provide some examples to assist agents.

...which will be addressed in revised instructions at end October

Theme/issue	Lloyd's response
QAD reference data – can the use of “NA”, “N/A” & “NR” be made more consistent?	"N/A" or "NA" normally apply for items that shouldn't be reported. There is the offline validator available in CMR for download and it will show what reference is available for each field. We shall update our instructions and systems to improve consistency.
QAD/AAD910 – is there a need to resubmit this if changes arise purely for Lloyd's requirements (e.g. Pillar 1) rather than Pillar 3 requirements?	Yes this is required for Lloyd's control and audit purposes.
NSTs - can Lloyd's issue a mapping of risk codes to the General Liability subdivisions as required for NSTs?	This will be provided for the updated instructions to be issued at end October.
QMC - will the format be aligned with the QSR?	Lloyd's is investigating options for future QMC submissions to align the return with the QSR.

We expect the balance sheet per QSR, QMC and ASR to be consistent

- We encourage the members' balances on QSR002 and QMC002 to be the same
- As at 30 June 2016:
 - QMCs were submitted in respect of 111 syndicates
 - 50 syndicates had no (or tiny) differences between the QMC and QSR
 - 24 syndicates had a difference of more than £5m for any year of account (48 syndicate years of account affected)
- We will follow up any material differences with agents
- To help with this, Lloyd's is reviewing integration for the QSR and QMC for 2017
- The ASR002 and QMC002 are both subject to audit and we expect the results by syndicate year to be the same

Coverholder reporting - update

A nighttime photograph of a city skyline, likely Toronto, featuring the CN Tower and various skyscrapers with lights reflecting on the water in the foreground. The sky is a deep blue, and the city lights are warm and colorful.

Forms ASR249, ASR250 and ASR252

- Requires syndicates to collect information on individual risks and claims on a look-through basis, distribute these across bandings, provide totals and counts.
- Includes risks and claims for all direct business written in 2016 and historic claims open at start of 2016.

Underwriting Years	Line of business:																	
	RBIS claims - Open Claims at the beginning of the year									Claims incurred during the year						Reopen Claims during the year		
	Open Claims at the end of the period			Closed Claims at the end of the period						Open Claims at the end of the period			Closed Claims at the end of the period					
	Number of claims	Gross RBIS at the beginning of the year	Gross payments made during the current year	Gross RBIS at the end of the period	Number of claims ended with payments	Gross RBIS at the beginning of the year	Gross payments made during the current year	Gross RBIS at the end of the year referred to in payments	Gross RBIS at the beginning of the year referred to in claims settled without any payment	Number of claims	Gross payments made during the current year	Gross RBIS at the end of the period	Number of claims ended with payments	Gross payments made during the current year	Number of claims ended without any payment	Number of claims	Gross payments made during the current year	Gross RBIS at the end of the period
settled																		
Prior																		
B-14																		
B-12																		
B-11																		
B-10																		
B-9																		
B-8																		
B-7																		
B-6																		
B-5																		
B-4																		
B-3																		
B-2																		
B-1																		
Total																		
N																		
Total																		

Start claims incurred	Line of business:																			
	Start claims incurred		End claims incurred		Number of claims incurred UWY N		Total claims incurred UWY N		Number of claims incurred UWY N-1		Total claims incurred UWY N-1		Number of claims incurred UWY N-2		Total claims incurred UWY N-2		Number of claims incurred UWY N-3		Total claims incurred UWY N-3	
	A	B	C	D	E	F	G	H	I	J	K	L	M	N	O	P	Q	R	S	T
1	0	1,000,000																		
2	1,000,001	2,000,000																		
3	2,000,001	3,000,000																		
4	3,000,001	4,000,000																		
5	4,000,001	5,000,000																		
6	5,000,001	6,000,000																		
7	6,000,001	7,000,000																		
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17	16,000,001	17,000,000																		
18	17,000,001	18,000,000																		
19	18,000,001	19,000,000																		
20	19,000,001	20,000,000																		
21	20,000,001+																			
Total																				

Line of business:					
	Start sum insured	End sum insured	Number of underwriting risks	Total sum insured	Total annual premium
	A	B	C	D	E
1	0	1,000,000			
2	1,000,001	2,000,000			
3	2,000,001	3,000,000			
4	3,000,001	4,000,000			
5	4,000,001	5,000,000			
6	5,000,001	6,000,000			
7	6,000,001	7,000,000			
8	7,000,001	8,000,000			
9	8,000,001	9,000,000			
10	9,000,001	10,000,000			
11	10,000,001	11,000,000			
12	11,000,001	12,000,000			
13	12,000,001	13,000,000			
14	13,000,001	14,000,000			
15	14,000,001	15,000,000			
16	15,000,001	16,000,000			
17	16,000,001	17,000,000			
18	17,000,001	18,000,000			
19	18,000,001	19,000,000			
20	19,000,001	20,000,000			
21	20,000,001+				
Total					

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 1,000s 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 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.

The dry run

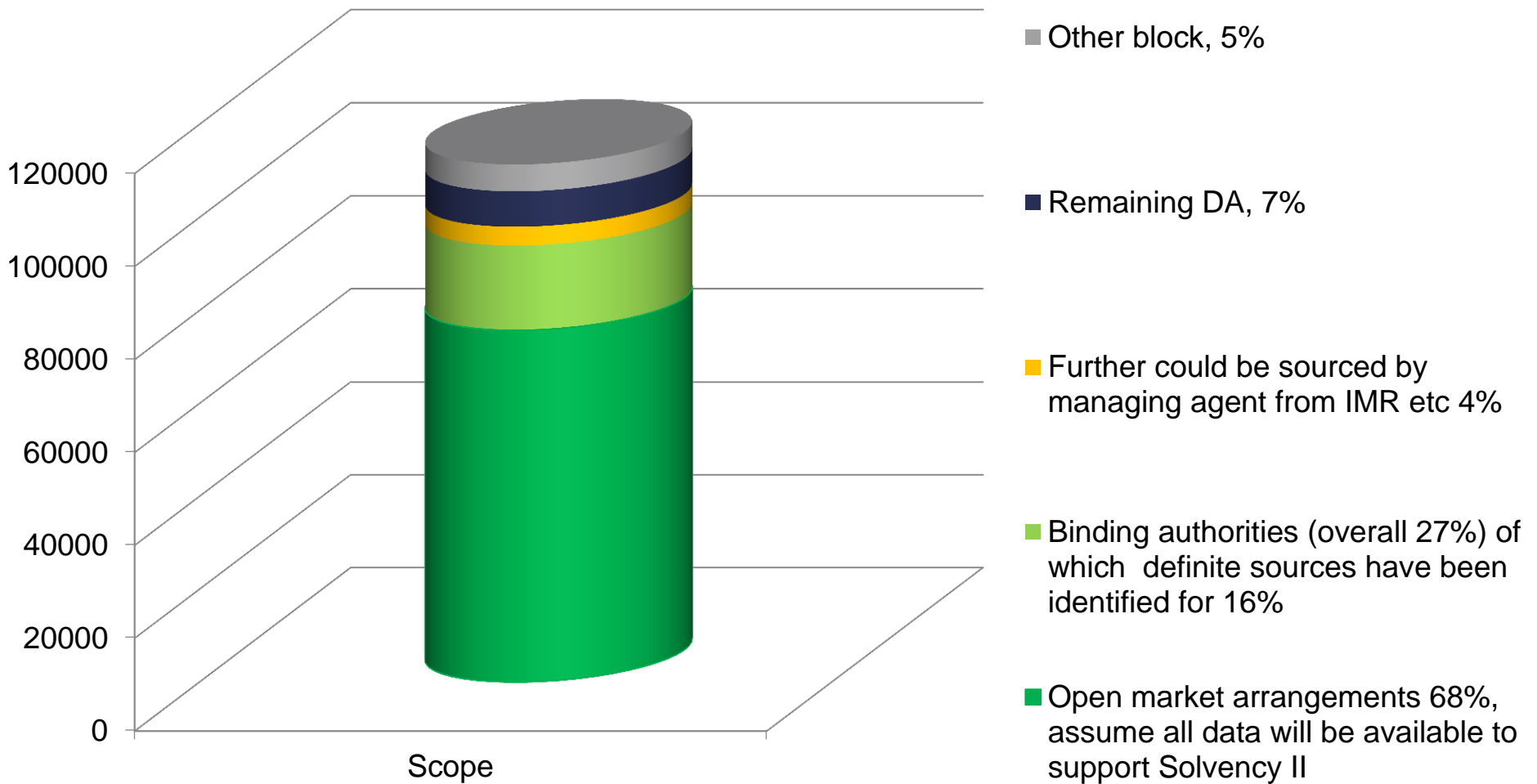
- A dry run took place earlier in the year to test the service being provided by Xchanging and the ability of lead syndicates to submit the data required
- Lead syndicates were asked to submit Q1 granular risk and claims data to Xchanging in a specific structured format
- Xchanging then allocated this lead data to the follow market, re-formatted the data and sent to all managing agents their lead and follow data in the format required for the ASR249, 250 and 252 returns
- As a proof of concept this model worked. Issues which did arise with the model have been addressed.
- The submission of data for delegated authority business was optional with around 3.5% of risk and 27% of claims data being submitted.

Lloyd's work with the market to ensure data is available to support Solvency II

- Lloyd's provides a number of systems around the world and has looked to these, to London brokers, to Third Party Adjusters (TPAs) who handle claims and to service providers to ensure data is available to support Solvency II.
- Some syndicates have stated that they will be in a position to report for all of their binding authority UMRs.
- Where syndicates are faced with small numbers of binding authority UMRs, it may be practical to look at Xchanging's central store of premium and claims documents and find the information there.

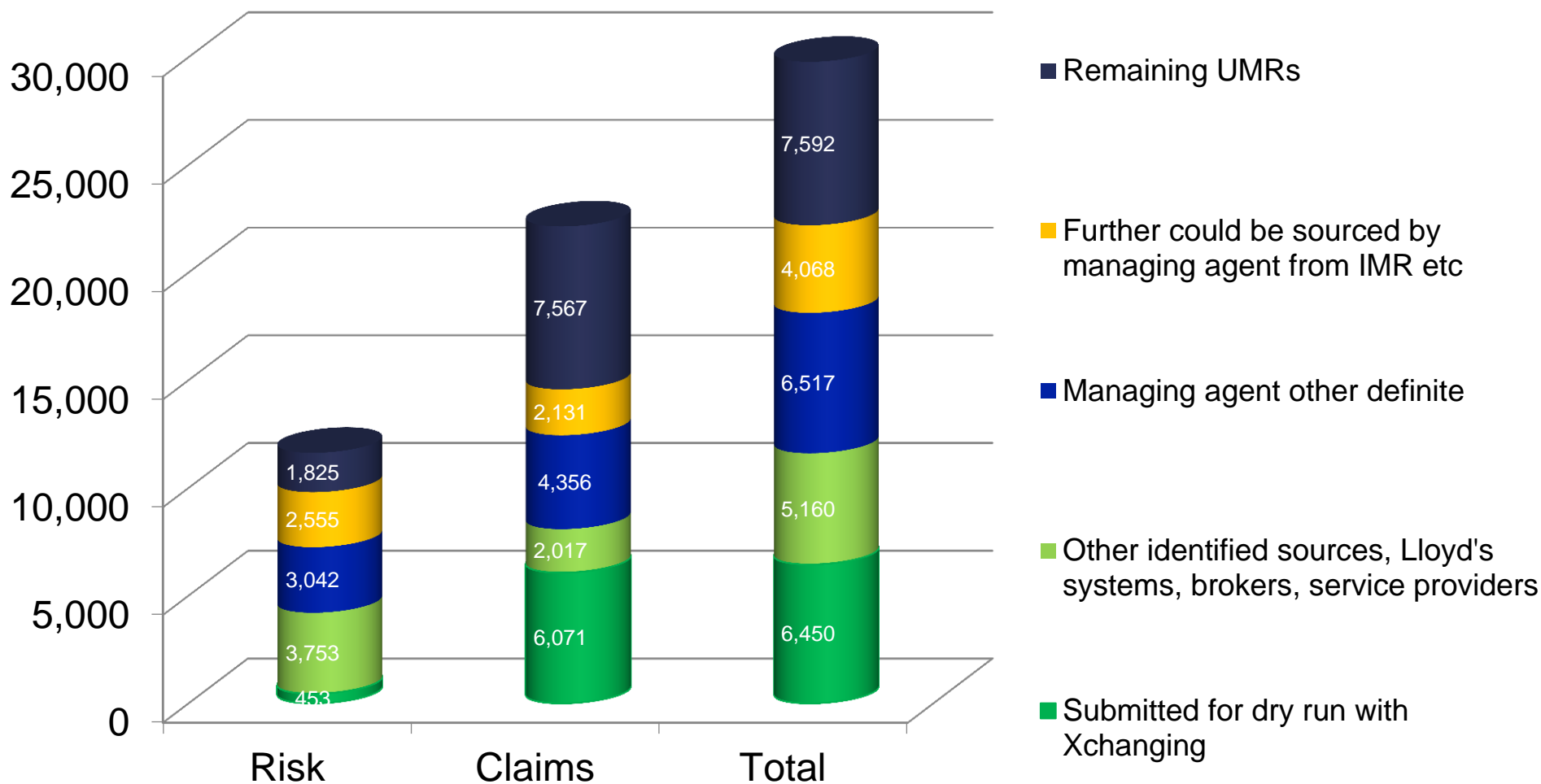
Scope and expectations for Solvency II

Data sources identified for 84% of all UMRs



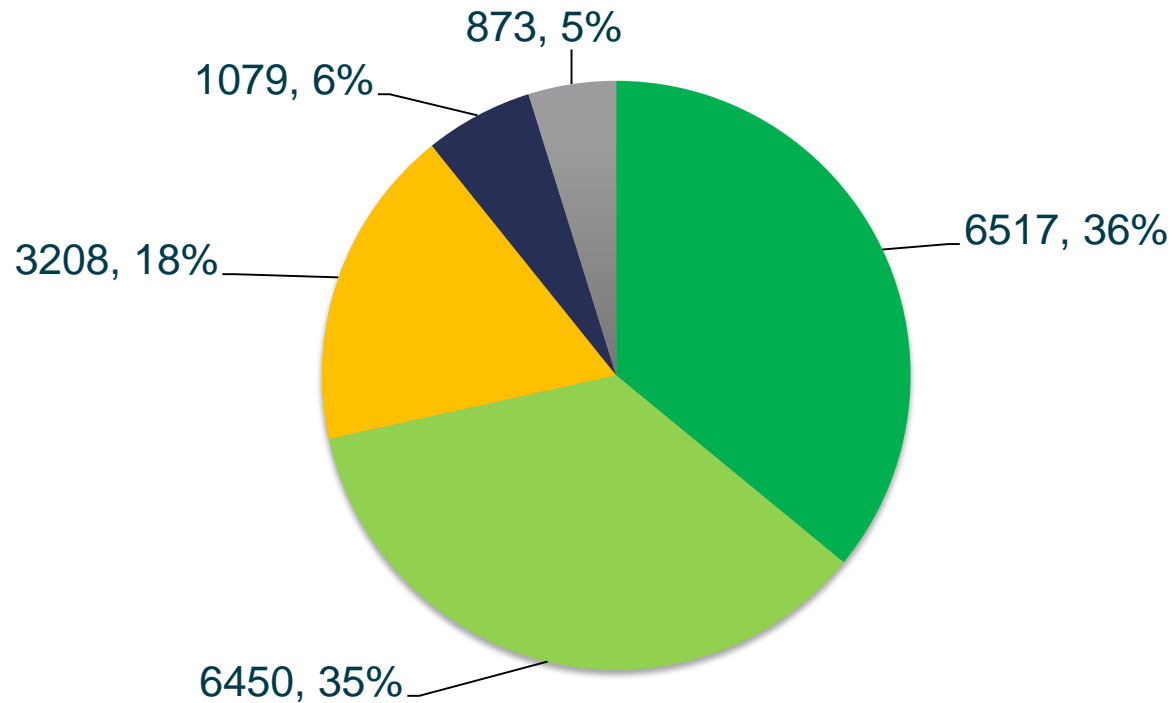
Explanation of sources of data for delegated authority

Note – Some UMRs are common to risk and claims, total is total unique UMRs



UMRs split by source

- Managing Agent Actions/Sourced
- Dry Run - Xchanging
- Lloyd's Systems (Incl. LDR)



Proposal

- Lloyd's syndicates will collectively provide returns based on data for 84% of the UMRs.
- Lloyd's will supplement this with an overall market estimation for the remaining UMRs.
- The data gap will reduce for future years' reporting, particularly after the Target Operating Model work has been completed. However, Lloyd's and the Market hope that the value, purpose and future of these reporting requirements will be reconsidered.

Timetable for each step

- In progress, advise syndicates of data which can be sourced centrally
- 14 October Presentation to the PRA
- 19 October 2016 - Market Pillar 3 briefing
- Nov/Dec – Sample data from TPAs
- Early January – Data extra from Xchanging to syndicates (Step A)
- 31 January 2017 – TPAs requested to send data to centre by this date
- Early February – Distribute centrally received data
- 14 February 2017 – Lead syndicates submit data to Xchanging service (Step B)
- 14 March 2017 – Xchanging distribute data to all lead and follow syndicates (Step C)
- 6 April 2017 - Syndicate submit forms ASR249, ASR250, ASR252 to Lloyd's (Step D)

Timetable for 2016 year end and 2017

Pillar 3 timescales for 31 December 2016 and during 2017

Reporting date	Return	Audited?	Deadline
31 December 2016	QSR and QAD	No	2 February 2017
31 December 2016	QMC	Yes	2 March 2017
31 December 2016	ASR, ASB and AAD ¹	Part of ASR only	6 April 2017
31 March 2017	QSR and QAD	No	28 April 2017
30 June 2017	QSR and QAD	No	28 July 2017
30 June 2017	QMC	Yes	31 August 2017
30 September 2017	QSR and QAD	No	27 October 2017
31 December 2017	QSR and QAD	No	29 January 2018
31 December 2017	QMC	Yes	1 March 2018
31 December 2017	ASR, ASB and AAD ¹	Part of ASR only	29 March 2018

¹ And National Specific Templates (NSTs)

The timescales 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

Annual reporting is almost upon us now...

- Review and familiarise yourselves with Lloyd's instructions
- Complete the identification and sourcing of data requirements
- Conduct internal dry runs
- Take part in CMR UAT
- Plan the annual reporting exercise in detail
 - Preparation
 - Review
 - Sign-off
 - Audit
- Ensure resources are in place

Questions?

LLOYD'S