



SOLVENCY II – PILLAR 3

Market briefing

19 October 2015

AGENDA

- ▶ **Overview and current status**
- ▶ **Lloyd's thematic review of agents' progress**
- ▶ **Dry run as at 31 December 2014**
- ▶ **Interim reporting at 30 September 2015**
- ▶ **Coverholder data - update**
- ▶ **Full Pillar 3 reporting from 1 January 2016 – arrangements and timetable**
- ▶ **Wrap up and questions**

After a very long road to get there...

Pillar 1

Capital and Solvency

Balance sheet valuation & capital requirements
Harmonised standards for the valuation of assets and liabilities, and the calculation of capital requirements

Pillar 2

ORSA and Regulatory

Governance and supervisory review process
To help ensure insurers have good monitoring and management of risks, and adequate capital

Pillar 3

Disclosure

Market discipline and disclosure
Harmonisation of supervisory reporting requirements that allow capital adequacy to be compared across institutions

...Solvency II starts in 74 days – including Pillar 3

The Pillar 3 legislative framework appears final...

- ▶ Framework Directive (2009/138/EC) (Level 1) – high level requirements on
 - Supervisory reporting (Article 35)
 - Public disclosure (Articles 51 to 56)

- ▶ Delegated Act (Commission Delegated Regulation (EU) 2015/35) (Level 2) – more detail on
 - Public qualitative reporting (Articles 290 to 303)
 - Private supervisory reporting (Articles 304 to 311)
 - Deadlines (Article 312)

- ▶ EIOPA Implementing Technical Standards (ITS) (Level 3) – more detail on
 - Reporting templates
 - LOG files (instructions)
 - Finalised in July 2015 – awaiting European Parliament ‘adoption’ – expected by end 2015

...but with the detail **still** subject to EU ratification

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

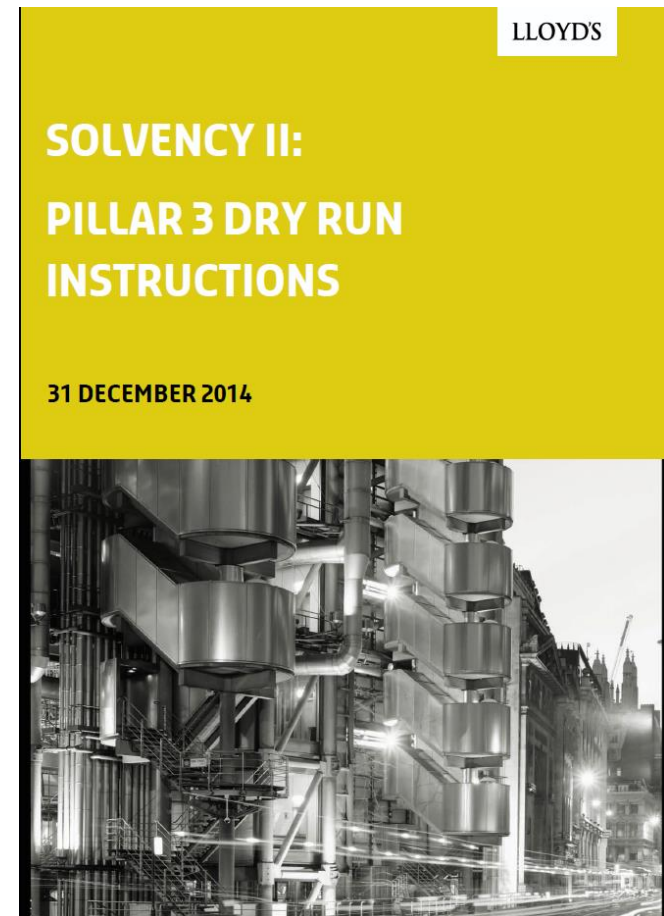
- ▶ Syndicates submit Pillar 3 data via **Core Market Returns (CMRs)**
 - Annual Solvency Return (ASR)
 - Annual Asset Data (AAD)
 - Quarterly Solvency Return (QSR)
 - Quarterly Asset Data (QAD)

- ▶ Lloyd's
 - Reviews each return and prepares an aggregate return for Lloyd's including central data eg Central Fund
 - Lloyd's submits public annual aggregate 'Solvency and Financial Condition Report' to PRA
 - **Syndicate level submissions remain 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...

- ▶ Draft forms and instructions available on lloyds.com
- ▶ CMR software available for UAT
- ▶ Dry runs conducted in 2014 and 2015
- ▶ PRA interim reporting complied with for Dec 2014
- ▶ Thematic review of agents' progress



...with good progress made towards full implementation

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The purpose of the thematic review...

- ▶ Pillar 3 is a key part of Solvency II compliance
 - For Lloyd's to be able to meet its Pillar 3 requirements, **all** agents must be ready

- ▶ Lloyd's conducted a thematic review of agents' readiness in Q3 2015
 - Based on a review of Pillar 3 status reports provided by agents at 30 June 2015
 - Covering several key areas

- ▶ Lloyd's will provide individual feedback to agents November...
- ▶ ...and will take into account themes emerging in Pillar 3 planning for 2016

...is to assess each agent's progress towards Pillar 3 compliance

Thematic review findings – Data issues

- ▶ Binder business
 - Agents awaiting guidance from Lloyd's on 'look through' data required from coverholders
 - Historical data and back filling where the required granularity is not available

- ▶ Country/geographical splits (ASR430)

- ▶ Obtaining the required information from investment managers when a new field is required

- ▶ Allocation of Technical Provisions to Solvency II lines of business (LOB) is challenging

Thematic review findings – IT solutions

- ▶ Larger and more complex syndicates have employed greater automation
 - As the 'key' to being able to meet Solvency II tight deadlines
 - Calculation of technical provisions
 - Databases to house all the required Solvency II requirements to enable automatic population of the forms

- ▶ Smaller syndicates are relying on Excel (albeit with strict controls) because they are able to cope this way – for the moment

- ▶ Not many agents have specifically mentioned 'early cut-off' as a means of meeting the deadlines. More automation will be applied instead

- ▶ Some agents looking at engaging external software for producing the Solvency II forms. Some of the larger agents have already done so

Thematic review findings – Human resources

- ▶ Agents reported that they were currently sufficiently resourced for Solvency II but were monitoring the situation on a 'wait and see' basis
- ▶ Agents were concerned about losing key staff along with the agency experience they have and not being able to replace them
- ▶ Those agents with immediate plans to recruit staff appear to be the newer/smaller ones
- ▶ Some agents are looking to temporary staff to provide the necessary expertise and resources to fulfil needs as they arise
- ▶ Some agents mention that there was a Solvency II training programme in place for staff

Thematic review findings – Roles, responsibilities and timetable

- ▶ Governance and monitoring of Solvency II projects is typically by means of
 - regular meeting of a Solvency II committee consisting of heads of departments who have ownership of the production of the various elements of data
 - These committees are charged with reporting progress to the Board

- ▶ Varying levels of Board involvement but structures were in place with in all agents that ensured Board knowledge of Solvency II progress

- ▶ In some cases, there was an actual presentation to the Board of the issues and details surrounding Solvency II (ie given Solvency II ‘training’)

- ▶ Most agents have specifically incorporated/mentioned Solvency II roles and performance targets in job specifications and staff assessments

Thematic review findings – Conclusions

- ▶ Agents are satisfied with the processes, resources and data requirements to meet the Solvency II forms submitted so far
 - As these have become BAU eg QMC, TPD

- ▶ There is cautious optimism in meeting the further requirements of Solvency II reporting
 - With acknowledgement that further clarification is required as to these requirements

- ▶ Agents who have commenced the process of automation and who have addressed centralised reporting, allocations etc via various database formats are more confident of future Solvency II reporting

Thematic review findings – How can Lloyd's help?

- ▶ Guidance/instructions on binder business/coverholder business, salvage and subrogation and country and geographic analysis
- ▶ A solution to the data processing issues relating to the population of the 'triangle' forms ASR245 to 247 (arising from the dry run)
- ▶ A dry run in 2016 in order to plan and prepare further for 2017
- ▶ One full set of instructions for all forms based on the final EIOPA logs/templates as opposed to separate instructions as and when returns are required
- ▶ Continued feedback on dry runs and thematic reviews
- ▶ Continued workshops
- ▶ More timely information from Lloyd's that syndicates rely on such as the yield curves

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The dry run collected these ASR forms...

ASR reference	EIOPA reference	Description
ASR002	S.02.01	Balance sheet
ASR440/450	S.05.01	Premiums, claims and expenses by line of business
ASR441/451	S.05.02	Premiums, expenses and claims by country
ASR286	S.13.01	Projection of future cash flows – life
ASR288	S.14.01	Life obligations analysis
ASR244	S.18.01	Projection of future cash flows – non-life
ASR245 to 247	S.19.01	Non-life insurance claims
ASR220	S.23.01	Own funds

...as well as these forms from the AAD

AAD reference	EIOPA reference	Description
AAD230	S.06.02	List of assets
AAD236	S.06.03	Collective investment undertakings – look through approach
AAD232	S.07.01	Structured products
AAD233	S.08.01	Open derivatives
AAD234	S.08.02	Derivatives transactions
AAD237	S.10.01	Securities lending and repos
AAD238	S.11.01	Assets held as collateral

Overall the dry run was successfully completed...

- ▶ All syndicates submitted ASR and AAD returns
- ▶ A big effort from the market – much appreciated - and stands Lloyd's in good stead for the future – albeit there is a lot more to do
- ▶ The dry run uncovered a number of issues with the software (particularly with ASR245 to ASR247) and the need to clarify instructions
- ▶ These areas will be addressed in the final development of the software and instructions

...but it identified some software and technical issues

ASR245 to 247 claims triangles presented a challenge...

- ▶ Bulk of data caused systems to slow down
- ▶ Printing of forms was not possible in many cases
- ▶ Modification suggested to just submit one LOB/currency helped although only a short term solution
- ▶ The point of the dry run was to highlight such issues
- ▶ We will review the approach to collecting this data
 - To make processing easier
 - Provide printing of summary sheets to make review easier

...due to the volume of data

Observations on the AAD

- ▶ There were four 'new' forms collected
 - AAD232 structured notes and collateralised securities
 - AAD234 closed derivatives
 - AAD237 securities lending and repurchase agreements
 - AAD238 collateral
- ▶ In certain cases, the instructions did not match the forms (due to form formats changing in transition to final EIOPA formats)
- ▶ The instructions will be updated to address these when they are being updated to the final EIOPA logs
- ▶ We believe that this was a useful exercise whereby syndicates (and Lloyd's) had to deal with previously un-submitted forms

General observations

- ▶ Certain forms required genuine negative figures being input on occasion but validation errors (as opposed to warnings) prevented submission. These validations will be modified
- ▶ The “+” or “-” parameters for certain inter form validations need to be provided with a margin of tolerance to avoid validation errors
- ▶ The instructions did not always reflect the requirements of the forms – reflecting a transitional situation to final EIOPA requirements
- ▶ The instructions need to give more instances where the forms can be agreed to other returns (eg TPD/QMA) and forms on a line by line basis

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A look back to 31 December 2014...

- ▶ Interim reporting requirements at 31 December 2014 applied to all major insurance undertakings including Lloyd's
- ▶ Intended as a preparatory, learning process for supervisors and undertakings
- ▶ Lloyd's required submissions from each syndicate
 - For review and then combining with central data for provision to PRA as aggregate return for Lloyd's
- ▶ Returns from syndicates were due by **16 April 2015**
- ▶ Lloyd's submission due to be made to PRA by **1 July 2015**

Syndicate interim returns were submitted on time...

- ✓ Syndicate return software worked well and was stable
- ✓ Most agent queries were raised early
- ✓ Virtually all returns were submitted on time

- ✗ Lloyd's raised over 200 queries with agents following review of the returns
 - Differences between the balance sheet and detailed asset listings
 - Analysis of technical provisions by country
 - Inconsistency in reporting SCR
 - Various queries on asset level data
- ✗ 40 ASR and 30 AAD resubmissions required

Lloyd's submission was made to the PRA on time – thank you!

...but with a high number of queries on review

Interim reporting at 30 September 2015 operates on same basis as 31 December 2014

- ▶ Lloyd's requires submissions from each syndicate
 - For Lloyd's to review and combine with central data for provision to PRA as aggregate return for Lloyd's

- ▶ Returns from syndicates due by **5 November 2015**
 - Sign-off by two directors required...
 - ...But no audit

Slightly reduced scope at 30 September 2015...

QSR/QAD reference	EIOPA reference	Description
QSR002	S.02.01	Balance sheet
QSR220	S.23.01	Own funds
QSR240	S.17.01	Non-life technical provisions by line of business – Part A
QSR280	S.12.01	Life technical provisions
QSR283	S.12.01	Health SLT technical provisions
QSR510	S.28.01	Minimum capital requirement – Non-life
QSR511	S.28.01	Minimum capital requirement – Life
QAD230	S.06.02	Investment data – portfolio list
QAD233	S.08.01	Derivatives data – open positions
QAD236	S.06.03	Investment funds (look-through approach)

...but timescales **much** tighter...

- ▶ Agents have 5 weeks after quarter end
 - Please submit any queries as soon as possible
 - Please use QSR/QAD990 'comments form' to explain any 'non standard' treatments being applied

- ▶ Lloyd's has 3 weeks after the agents' deadline to review, resolve any queries, aggregate with central data and convert into XBRL format for submission to the PRA
 - The fewer the number of queries which have to be raised, the better!

- ▶ Instructions are available on lloyds.com

- ▶ Live QSR/QAD software available for completion

...both for syndicates and Lloyd's

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How is Lloyd's addressing the issue of securing sufficiently granular coverholder data?

- ▶ Certain Pillar 3 forms eg ASR249, 250, 252 require access to risk and claim level data
- ▶ Lloyd's/LMA formed a coverholder data working group including several managing agents
- ▶ A presentation on coverholder reporting requirements from 2016 was provided to agents on 1 May
- ▶ A follow up series of 'roadshows' across the UK was conducted directly with coverholders
- ▶ Lloyd's Coverholder Reporting Standards have been updated to reflect Solvency II and FCA requirements from 2016

Lloyd's is consulting on providing a central solution to Pillar 3 claims level reporting

- ▶ Consultation paper issued via LMA on 16 October 2015
 - Sent to compliance officers and members of Delegated Underwriting Managers Forum
- ▶ The requirements that the options are proposed to address are:
 - ASR249: claim movements
 - ASR250: loss distribution
- ▶ A market wide solution is being proposed for the reporting of business which is processed through Xchanging
- ▶ Managing agents are expected to develop solutions independently for the reporting of business that is not processed via Xchanging
- ▶ Consideration will be given to extending agreed solution to premium data
- ▶ Comments please to Helen Ashenden (helen.ashenden@lloyds.com) **by 6 November 2015**
- ▶ The detailed solution, including the definition of a claim, will be finalised by end 2015

How would the solution work?

- ▶ For claims captured in CLASS¹ individually:
 - A definition of 'reportable claim' shall be determined
 - Lloyd's or Xchanging will provide each agent a report of their reportable claims, lead and follow, in a standard format, by 31 January 2017²
 - Agents combine these claims with other reportable claims in order to be able to complete the ASR249 and ASR250

- ▶ For claims captured in CLASS as a block
 - In order to deliver these processes efficiently across the market it is proposed that lead underwriters obtain all reportable bordereaux in readable format (eg from coverholders/brokers/TPAs)
 - A standard format is adopted for the capture of the movements data
 - A single market database is established to hold this movements data extracted from bordereaux, from which reports can be generated for lead and follow syndicates
 - A shared service is developed to extract the movements data from claims bordereaux and submit this data in the standard format to the single market database

¹ CLASS is the claims systems hosted by Xchanging on behalf of all managing agents

² For the 31 December 2016 reports

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'Live' Pillar 3 starts from 2016

Agent submission	Reporting date	Agents submit to Lloyd's ¹	Agent sign-off	Audit?	Lloyd's submits to PRA
Opening position Pillar 3 returns	31 Dec 2015	7 April 2016	Two directors ²	No	20 May 2016
First full Pillar 3 quarterly return – Q1 2016	31 Mar 2016	5 May 2016	Two directors ²	No	26 May 2016
Quarterly reporting – Q2 2016	30 June 2016	5 Aug 2016	Two directors ²	No	25 Aug 2016
Quarterly reporting – Q3 2016	30 Sept 2016	3 Nov 2016	Two directors ²	No	25 Nov 2016
Quarterly reporting – Q4 2016	31 Dec 2016	2 Feb 2017	Two directors ²	No	25 Feb 2017
First full annual return – 2016	31 Dec 2016	6 April 2017	Board ³	Partly	20 May 2017

¹ See market bulletin Y4929

² Finance Director and ANO Director

³ CEO/MD, Finance Director and ANO Director on behalf of the Board

Opening reporting as at 31 December 2015 (1 January 2016) is a small subset of annual forms

ASR reference	EIOPA reference	Description
ASR002	S.02.01.02	Balance sheet
ASR220	S.23.01.01	Own funds
ASR510	S.28.01.01	Minimum capital requirement – Non-life
ASR511	S.28.01.01	Minimum capital requirement – Life
ASR522	S.25.03.01	Solvency capital requirement (internal model)

- Instructions available by 31 December 2015
- Live CMR software available by 29 February 2016
- Deadline for submission 7 April 2016

'Full' quarterly reporting applies from Q1 2016

QSR/QAD reference	EIOPA reference	Description
QSR002	S.02.01.02	Balance sheet
QSR220	S.23.01.01	Own funds
QSR240	S.17.01.02	Non-life technical provisions by line of business – Part A
QSR280	S.12.01.02	Life technical provisions
QSR283	S.12.01.02	Health SLT technical provisions
QSR440	S.05.01.02.01	Premiums, claims and expenses by line of business (non life)
QSR450	S.05.01.02.02	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)

- Instructions available by 31 December 2015
- Live CMR software available by 29 February 2016
- Deadline for submission 5 May 2016

QMC still needed for Lloyd's capital setting

- ▶ QMC (Solvency II balance sheet) shall be retained for the foreseeable future
 - As at 31 December 2015 (deadline 3 March 2016)¹
 - As at 30 June 2016 (deadline 1 Sept 2016)¹

- ▶ 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)

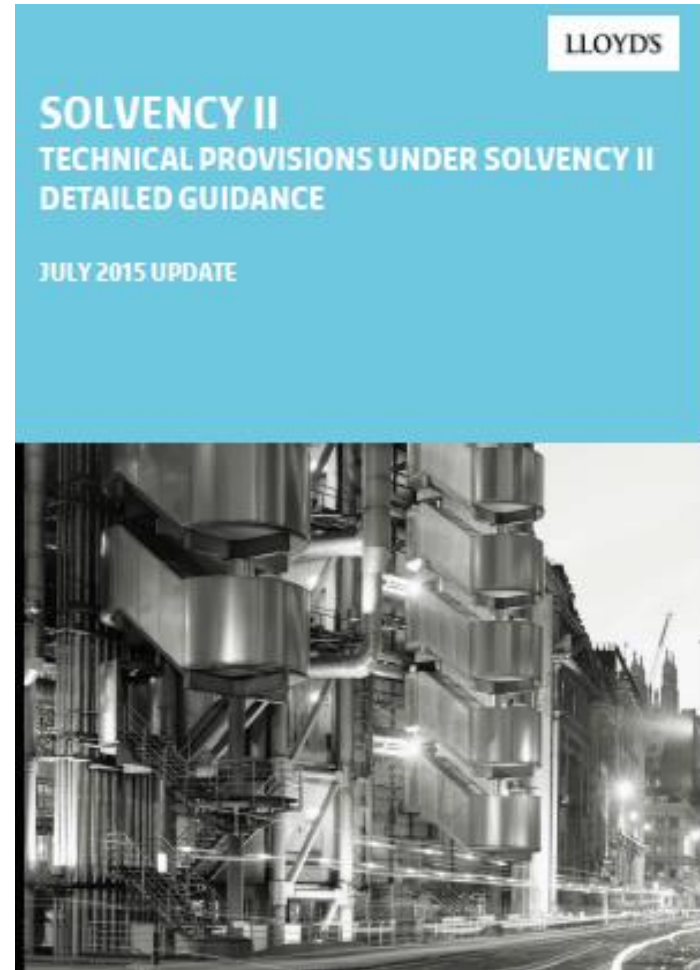
- ▶ Technical provisions must be determined in accordance with Lloyd's technical provisions guidance July 2015
 - This was introduced from the 30 June 2015 QMC

- ▶ **Otherwise no changes**

¹ See market bulletin Y4929

Lloyd's updated Technical Provisions guidance reflects EIOPA final requirements

- ▶ EIOPA requirements now finalised
- ▶ Guidance update published on lloyds.com
- ▶ Compliance expected from Q2 2015 onwards
- ▶ A number of areas have seen changes/clarifications:
 - Contract boundaries
 - Risk margin calculation
 - Look through on binders business
 - Matching and volatility adjustments
 - Relabelling of binary events as ENIDs



Contract boundaries requirements will impact Solvency II members' balances

- ▶ Focus on:
 - Whether the contract is legally obliged
 - Contractual terms
- ▶ We expect this change to increase net technical provisions
 - Quantum of change will depend on annual pattern of reinsurance purchase and contract terms
- ▶ The increase to liabilities will have an impact on Solvency II members' balances
- ▶ QMC instructions will be clarified in this respect for December 2015

Should we have another market dry run in 2016?

- ✓ Last chance to test full annual reporting forms
- ✓ Some forms have not yet been tested in a dry run
- ✓ Better to uncover software and technical issues in a dry run rather than in 'live' reporting
- ✓ Tests Lloyd's aggregation systems
- ✗ Adds to agent workload in addition to implementation of full Solvency II quarterly reporting
- ✗ Diverts resources away from finalisation of technical and system requirements for full annual reporting
- ✗ Agents will have their own dry run plans, perhaps targeting particular forms

What do you think?

Looking to 2019 – and beyond...

	Deadline after reporting date (weeks)			
	2016	2017	2018	2019+
Syndicate reporting to Lloyd's				
Quarterly	5	4	4	3
Annual	14	13	11	10
<i>Annual—previously advised</i>	14	12	10	8
Lloyd's reporting to PRA				
Quarterly	8	7	6	5
Annual	20	18	16	14

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Lloyd's here to help agents

- ▶ Your Risk Assurance account manager
- ▶ solvency2@lloyds.com
- ▶ lloyds-solvencyreturns@lloyds.com
- ▶ lloyds.com Solvency II pages

QUESTIONS?

