



SOLVENCY II – PILLAR 3

Market briefing

8 June 2015

AGENDA

- ▶ **Overview and current status**
- ▶ **Interim reporting as at 31 December 2014**
- ▶ **Completing your preparations for Pillar 3**
- ▶ **Dry run – autumn 2015**
- ▶ **Interim reporting at 30 September 2015**
- ▶ **Moving to full Pillar 3 reporting from 2016**

As Solvency II approaches...

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

...the focus increases on Pillar 3

Lloyd's structure makes Pillar 3 particularly challenging...

- ▶ Lloyd's has a 'two step' basis of preparing supervisory reporting:
 - Returns received from syndicates
 - Aggregation with Lloyd's central data (Corporation, Central Fund and members' funds at Lloyd's)
- ▶ Lloyd's requires syndicates to submit returns earlier than Pillar 3 deadlines
 - Time needed of review and resolution of queries before aggregation

Deadline (weeks)

Syndicate reporting to Lloyd's

Quarterly

Annual

	2016	2017	2018	2019+
Quarterly	5	4	4	3
Annual	14	12	10	8

Lloyd's reporting to PRA¹

Quarterly

Annual

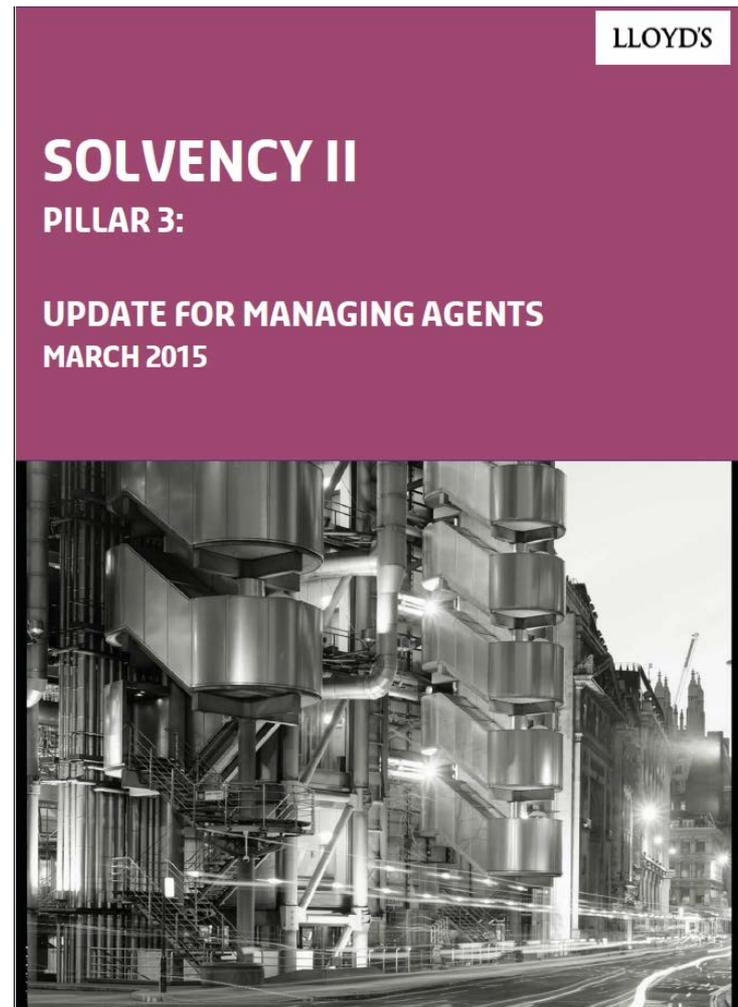
	2016	2017	2018	2019+
Quarterly	8	7	6	5
Annual	20	18	16	14

¹ ie same for all EU undertakings

...which means preparing for implementation is especially important

- ▶ Detailed instructions provided to agents in 2012
 - Updated regularly subsequently
- ▶ Return software (CMRs¹) available to agents for testing since 2013
- ▶ Regular Pillar 3 workshops and updates
- ▶ Dry run in 2014
- ▶ Further dry run in 2015 and likely for 2016

¹ Core Market Returns system



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What was expected in the interim reporting?

- ▶ Interim reporting requirements at 31 December 2014 applied to all major insurance undertakings including Lloyd's

- ▶ Lloyd's required 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 **16 April 2015**
 - Sign-off by two directors required...
 - ...But no audit

All of the quantitative material had been collected previously...

Template	ASR ¹ /AAD ² form	Existing Lloyd's return	Since (reporting date)
Balance sheet	ASR002	QMC	Dec 2011
Own funds	ASR220	QMC	Dec 2011
Assets and liabilities by currency	ASR260	Dry run	Dec 2013
Non-life technical provisions	ASR240/241	TPD	Dec 2010
Life technical provisions	ASR280	TPD	Dec 2010
Health technical provisions	ASR283	TPD	Dec 2010
Technical provisions by country	ASR242/281/284	Dry run	Dec 2013
MCR	ASR510/511	Dry run	Dec 2013
SCR from internal model	ASR522	LCR	2013
List of assets	AAD230	AAD/QAD	Dec 2012
List of open derivatives	AAD233	AAD/QAD	Dec 2012
Investment funds (look-through)	AAD236	AAD/QAD	Dec 2012

¹ Annual Solvency Return, ² Annual Asset Data

...and interim returns were submitted on time...

- ✓ Most queries were raised early
- ✓ Virtually all returns were submitted on time
- ✗ Lloyd's raised over 200 queries with agents following review of the returns
- ✗ 40 ASR and 30 AAD resubmissions required

...but there were a relatively high number of queries on review...

...covering these themes in particular

- ✗ Differences between the ASR002 balance sheet and AAD230/233 detailed asset listings
- ✗ Treatment of foreseeable distributions per ASR220
- ✗ Analysis of technical provisions by country for ASR242 and 281
- ✗ Problems with the ASR 510 (MCR) where negative values arose
- ✗ Inconsistency with reporting SCR on ASR522, need to clarify instructions
- ✗ Various queries on AAD re NACE and CIC codes, instructions need to be clarified
- ✗ AAD233 derivative notional amount should be reported in GBP not original currency

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Pillar 3 is an integral part of Solvency II compliance...

- ▶ For Lloyd's to be able to meet its Pillar 3 requirements, all agents must be ready by end 2015

- ▶ Lloyd's shall conduct a thematic review of agents' readiness in Q3 2015, taking into account:
 - Compliance so far in dry runs and interim reporting
 - Review of agents' Pillar 3 status reports due 30 June 2015

- ▶ Lloyd's operates continual assessment of agents' Solvency II compliance
 - Significant concerns over Pillar 3 may result in agent being downgraded from **green** to **red**
 - **Leading to the consideration of prudential measures by Lloyd's Standards Assurance Group (SAG)**

...and Lloyd's takes this into account when assessing an agent's Solvency II 'rating'

Pillar 3 status report should be capable of being prepared from existing material...

- ▶ A summary of the agent's status of completing its preparations for Pillar 3 as at 30 June 2015, so that it may
 - meet full quarterly reporting requirements from 31 March 2016
 - full annual reporting requirements from 31 December 2016
- ▶ A freeform document should address the areas set out in the following slides
- ▶ The agent may submit existing internal project management or planning material to comply with this requirement
- ▶ No board sign off required, although review by a senior Finance individual expected
- ▶ Please submit to solvency2@lloyds.com by 30 June 2015

...to provide Lloyd's with an overview of the agent's progress

The status report must cover these key areas,

▶ **Data requirements**

- Status of gap analysis, outstanding work and timetable for completion
- Specific data requirements which are not sourced yet and plans to achieve this
- Specific data requirements which the agent considers cannot be readily sourced

▶ **IT solutions**

- Status of IT refinements to meet Pillar 3 requirements, outstanding work and timetable for completion
- Any unresolved IT issues

▶ **Human resources**

- Report on whether sufficient staff are in place to successfully deliver Pillar 3 requirements (in particular within Finance and Actuarial teams)
- If further recruitment is required, a timetable of when this will be undertaken
- Status of training of staff and timetable for further work if required
- Concerns over inadequacy of resource and/or difficulties in securing further resource

setting out clear plans to complete the work,

▶ **Dry running**

- Plans and timetable to meet dry runs advised by Lloyd's in respect of Pillar 3, including the Syndicate Reinsurance Structure (SRS) return
- Plans in respect of dry running other requirements not yet formally scheduled for Lloyd's dry running
- Issues in respect of being able to comply with the above

▶ **Roles, responsibilities and timetable**

- Status of reflecting the delivery of Pillar 3 requirements in the individual objectives of staff members and also within the terms of reference of Boards and sub-committees reviewing and approving Pillar 3 submissions
- Plans for timetabling the preparation, review and approval of quarterly and annual Pillar 3 submissions, consistent with the anticipated and accelerating timetable for agent submissions to Lloyd's (see slide 4)
- Any unresolved issues in this respect, plans to address them and timetable for doing so

summarising your status and where Lloyd's can help

▶ **Summary**

- Whether you think the agent is on target to be ready for full Pillar 3 reporting
- Or alternatively, where you consider that there is a significant risk that this will not be the case, the main reason(s) for this

▶ **Areas where Lloyd's can provide further support**

- Any action that Lloyd's could take to help agents complete their preparations, for instance more:
 - guidance and/or clarification
 - further dry runs
 - workshops
 - individual agent feedback
- Please set out specific areas where this would help

The thematic review is intended to help agents

- ▶ Lloyd's Finance and Risk Assurance teams will review agents' submissions along with other evidence, Q3 2015
- ▶ Feedback on the plans shall be provided to managing agents individually by end September
- ▶ Main themes shall also be addressed at the Pillar 3 market briefing planned for October
- ▶ SAG continuously reviews agent ratings

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Another market dry run will help...

- ▶ Dry run of interim reporting requirements in 2014 helped test:
 - Agents' ability to meet interim reporting
 - Lloyd's CMR systems

- ▶ Dry run of further annual reporting requirements will take place in Q3 2015:
 - Data as at 31 December 2014
 - 'Best efforts' with no formal board sign-off
 - Review required by senior agent Finance person

- ▶ Deadline for submission **24 September 2015**
 - Lloyd's review and feedback to agents by Nov 2015

...both agents and Lloyd's complete preparations

The dry run shall collect these ASR forms...

EIOPA reference ¹	ASR reference ²	Description
S.02.01	ASR002	Balance sheet
S.05.01	ASR440/450	Premiums, claims and expenses by line of business ³
S.05.02	ASR441/451	Premiums, expenses and claims by country ³
S.13.01	ASR286	Projection of future cash flows - life ³
S.14.01	ASR288	Life obligations analysis ³
S.18.01	ASR244	Projection of future cash flows – non-life ³
S.19.01	ASR245 to 247	Non-life insurance claims ³
S.23.01	ASR220	Own funds

¹ EIOPA references are per templates provided in [https://eiopa.europa.eu/Publications/Consultations/EIOPA-14-052-Annex I Templates.zip](https://eiopa.europa.eu/Publications/Consultations/EIOPA-14-052-Annex_I_Templates.zip)

² Annual Solvency Return

³ First time that this form has been collected in a Lloyd's dry run

...as well as these forms from the AAD

EIOPA reference ¹	AAD reference ²	Description
S.06.02	AAD230	List of assets
S.06.03	AAD236	Collective investment undertakings – look through approach
S.07.01	AAD232	Structured products ³
S.08.01	AAD233	Open derivatives
S.08.02	AAD234	Derivatives transactions ³
S.10.01	AAD237	Securities lending and repos ³
S.11.01	AAD238	Assets held as collateral ³

¹ EIOPA references are per templates provided in [https://eiopa.europa.eu/Publications/Consultations/EIOPA-14-052-Annex I Templates.zip](https://eiopa.europa.eu/Publications/Consultations/EIOPA-14-052-Annex_I_Templates.zip)

² Annual Asset Data

³ First time that this form has been collected in a Lloyd's dry run

Some forms excluded...

- ▶ **Forms previously tested** – where not relevant for reconciliation purposes in this dry run
- ▶ **Analysis of claims and loss data** - these are, to an extent, dependent on coverholder data and claims analysis, where further work is required to clarify final requirements
- ▶ **Reinsurance data** – being separately tested via the related Syndicate Reinsurance Structure (SRS) exercise being conducted by Lloyd's
- ▶ **Variation analysis** - these templates are not required to be completed until the second full year of Pillar 3 annual reporting ie at 31 December 2017
- ▶ **Best estimate by currency and country, activity by country and own funds analysis** - further work is required to clarify final requirements

...which will be covered in further dry run next year

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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 from 31 December 2014...

QSR ¹ /QAD ² reference	Description
QSR002	Balance sheet
QSR220	Own funds
QSR240	Non-life technical provisions by line of business – Part A
QSR280	Life technical provisions
QSR283	Health SLT technical provisions
QSR510	Minimum capital requirement – Non-life
QSR511	Minimum capital requirement – Life
QAD230	Investment data – portfolio list
QAD233	Derivatives data – open positions
QAD236	Investment funds (look-through approach)

¹ Quarterly Solvency Return, ² Quarterly Asset Data

...but timescales much tighter...

- ▶ Agents have 5 weeks after quarter end
 - Plan for data preparation, review and sign-off
 - Submit any queries as soon as possible
 - Review instructions and software in advance of 30 September

- ▶ Lloyd's has 3 weeks after the agents' deadline to review, resolve any queries and aggregate with central data
 - The fewer the number of queries which have to be raised, the better!
 - Lloyd's shall refine and clarify instructions in areas where there were the most queries in the December 2014 interim reporting

...both for syndicates and Lloyd's

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The requirements are (almost) final...

- ▶ Delegated Acts (Level 2) agreed late 2014
 - Valuation and classification of assets and liabilities
 - Qualitative reporting requirements
 - Deadlines and transitional arrangements

- ▶ EIOPA consulted on final ITS¹ and Guidelines (Level 3) in early 2015
 - Final requirements to be published Q3 2015
 - Reporting templates and instructions for completion

- ▶ More information available from EIOPA website

¹ Implementing Technical Standards

...and the Pillar 3 reporting requirements a reality

Timing	Agent submission	Purpose
30 June 2015	Pillar 3 preparations status template	Preparation
3 Sept 2015	30.06.2015 QMC	Capital setting
24 Sept 2015	Dry run of selected annual templates (at 31.12.2014)	Preparation
5 Nov 2015	30.09.2015 interim reporting returns	PRA requirement
7 April 2016	Opening position Pillar 3 returns - Solvency II balance sheet, own funds, SCR and MCR	Solvency II 'live'
5 May 2016	First full Pillar 3 quarterly return at 31.03.2016	Solvency II 'live'
6 April 2017	First full Pillar 3 annual return at 31.12.2016	Solvency II 'live'

Agents must complete their preparations for Pillar 3

- ▶ Identify and fill data gaps
- ▶ Automate processes
- ▶ Secure and train resources
- ▶ Carry out in house dry run
- ▶ Plan for preparation, review and approval of submissions
- ▶ Use market dry run as a learning and preparatory process

Lloyd's will help agents finish the job...

- ▶ Lloyd's shall continue to help the market get ready for Pillar 3:
 - Instructions and CMRs will be updated for EIOPA final changes
 - Further dry runs will be undertaken in 2015 and 2016
 - Lloyd's shall retain project support in 2016 to help agents complete implementation

- ▶ Further help available from:
 - Your Risk Assurance account manager
 - solvency2@lloyds.com
 - lloyds-solvencyreturns@lloyds.com
 - lloyds.com Solvency II pages

...recognising that there is still much to do

QUESTIONS?

