
QMA and Pillar 3 Market Briefing

16 October 2017

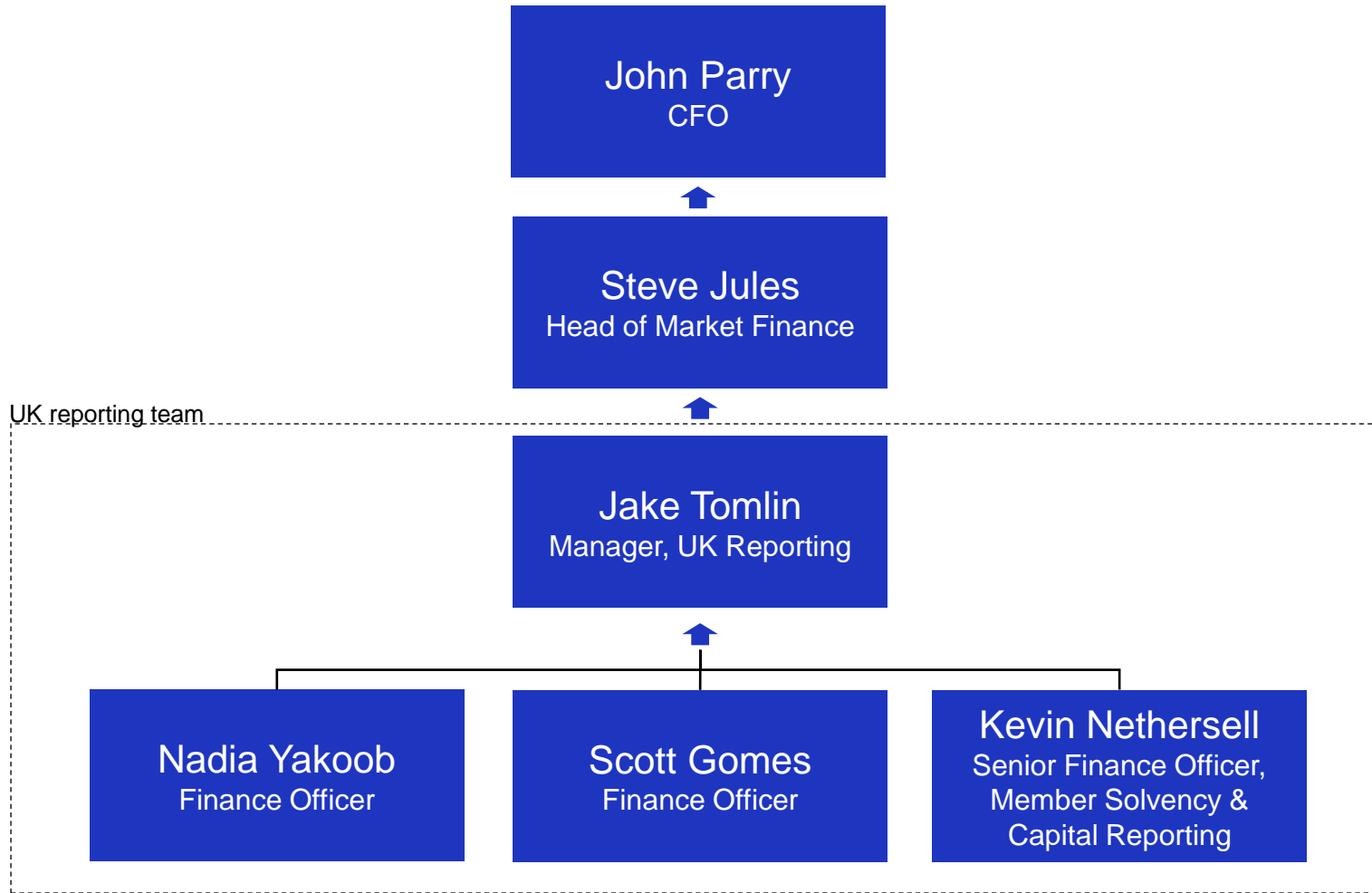
Market Briefing – QMA return

16 October 2017

Agenda

- **Market Finance team**
- **Market Communications**
- **What we do with the QMA returns**
- **Q4 2016**
- **Q2 2017**
- **Changes for Q4 2017**
- **Key dates: 2017 – 2018**

Market Finance – UK Reporting team



Market Communications

- Bulletins will be issued on the first working day of the quarter following quarter end. The Q4 2017 Market Bulletin will be issued on 2 January 2018.
- QMA instructions will generally be updated twice a year, at the end of May and November.
- FAQs will be issued on Fridays in the weeks leading up to the day of each QMA submission. For Q4 2017 this will be in the week commencing 12 January 2017.
- Queries to and from the Lloyd's QMA inbox: Lloyds-MRD-ReturnQueries@lloyds.com
- CMR group meets every two months.

What we do with the QMA returns

- Review submissions for completeness and accuracy – query errors, trends or outliers identified through a series of tests performed
- Provide data to other Lloyd's users (claims, actuaries, treasury, exposure management)
- Prepare the market pro forma annual and interim results
- Provide accounts to corporate members subscribing to Lloyd's Schedule 3 facility
- Obtain syndicate results on the 'three year accounting' basis required to allocate results to members
- Monitor the development of syndicates as part of Lloyd's overview of the market
- Present relevant data to analysts, ratings agents and external investors

Q4 2016

A reminder of the previous changes made

New forms:

- QMA 690 (reconciliations – comparative year disclosures)
- QMA 480 & 481 (discounted claims)

Deleted forms:

- QMA 150, 218, 260, 281, 282, 297, 342, 345, 500 series, 923

Changes to previous forms:

- QMA 440 & 441 (fair value hierarchy changes)
- QMA 460 & 461 (maturity analysis now included claims outstanding)
- QMA 610 (reconciliations)

Validations and other changes:

- QMA 415 & 416 (sensitivity), 425 & 426 (credit risk), 001 (P&L), 101 (syndicate status), 223 (TPs), 710 (RI recoverables), 910 (managing agents)
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Q4 2016

Queries raised

Number of queries	Number of syndicates	Total queries
1	19	19
2	21	42
3	18	54
4	7	28
5	10	50
6	12	72
7	4	28
8	2	16
11	1	11
14	1	14
Total with query	95	334
0	16	0
Total	111	334

2015	Number of syndicates	Total queries
Total	108	295

Q4 2016

Resubmissions

Period	Resubmissions	Further resubmissions
2014	18	1
2015	80	22
2016	62	22

Q4 2016

Problem areas

Form	Number of queries	%	Comment
QMA 710	76	23	A large number of syndicates missed the changes in the instructions and the FAQs explaining where amounts needed to be recorded as a negative instead of a positive. A pragmatic Excel solution was utilised.
QMA 104	30	9	Further explanation required on analysis across various lines of business: <ul style="list-style-type: none"> - significant prior/current year profits/losses; - high/low combined ratio and expense ratio movements etc; - significant profits earned but low combined ratio; - outliers – significant profits/losses identified in certain syndicates in comparison to the rest of the market.
QMA 441	23	7	Various issues with the fair value hierarchy form: <ul style="list-style-type: none"> - data did not tie back to restated QMA 290 equivalent lines; - overseas deposits reported in line 4 rather than 4a; - some syndicates did not complete this form however changes to QMA 440 mandated this.
QMA 190	14	4	Syndicates restated their QMA 190 but did not provided the direct commissions figure.
QMA 450	12	4	In the claims development triangles agents need to ensure that gross provisions agree to QMA 206 and net provisions to QMA 206 – QMA 203.
QMA 430	11	3	Queries regarding currency mismatching in QMA 430 and the need to declare that the syndicate has sufficient free funds available in other currencies that can be readily translated – or reasons for negative assets.
Sub-total	166	50	
Other	168	50	Other areas of focus: <ul style="list-style-type: none"> - unexplained material amounts against creditors reported on the QMA 460; - syndicate not completing QMA 461 (mandatory); - FX amounts treated in the technical P&L; - “other” columns needing explanation; - further information required around nature of investments reported in the QMA 201; - inconsistent reporting between the QMA 203/206 and QMA 002 re: members balances.
Total	334	100	

Q4 2016

Common pitfalls

- Not reading QMA instructions - “tracked changes” version will help
- Not reading FAQs (issued weekly throughout reporting period)
- Missing mandatory forms
- Populating prior year comparative forms when not restating
- Not including comments in QMA 990 where instructions request this
- Ignoring warnings
- Not adding descriptions for “Other” cells or providing sufficient detail in “Analysis” cells (particularly > £1m)

Q2 2017

Key updates

- QMA 360 was changed on CMR to make this simpler to account for distributable result (USD and GBP columns removed and other adjustment lines included).
- Clarifications were made to the instructions for QMA 003 regarding the expected treatment of foreign exchange in the cash flow forms.
- Additional guidance on preparing QMA 710 was included in the instructions in response to feedback received from the market following errors identified in the Q4 2016 submissions.
- A summary of the comments (by respective QMA form) where Lloyd's expects additional commentary or analysis to be included in the QMA 990 form was included in the instructions.
- Other guidance identified from previous FAQs was updated in the instructions.

Q2 2017

Queries raised

Number of queries	Number of syndicates	Total queries
1	36	36
2	17	34
3	12	36
4	8	32
5	1	5
15	1	15
Total with query	75	158
0	37	0
Total	112	158

2016	Number of syndicates	Total queries
Total	111	95

Q2 2017

Resubmissions

Period	Resubmissions	Further resubmissions
H1 2015	41	1
H1 2016	58	4
H1 2017	36	5

Q2 2017

Problem areas

Form	Number of queries	%	Comment
QMA 104	30	19	Further explanation required on analysis across various lines of business: <ul style="list-style-type: none"> - significant prior/current year profits/losses; - high/low combined ratio and expense ratio movements etc; - significant profits earned but low combined ratio; - outliers – significant profits/losses identified in certain syndicates in comparison to the rest of the market.
QMA 100	22	14	Queries concerning amounts treated as “other acquisition costs”.
QMA 710u	16	10	Inconsistency between amount reported under Column C “Outwards RI premiums year to date” and the QMA 001.
QMA 430u	13	8	Queries regarding currency mismatching in QMA 430u and the need to declare that the syndicate has sufficient free funds available in other currencies that can be readily translated – or reasons for negative assets.
QMA 130/132	10	6	Additional analysis and explanation requested concerning movements in expenses.
QMA 201	9	6	Further explanation requested around nature of certain investments reported.
QMA 650u	6	4	Queries regarding earning patterns in youngest YOA.
Total	106	67	
Others	52	33	Some of the other focus areas were: <ul style="list-style-type: none"> - QMA 350 – movement in level of free funds required further explanation; - commentary required or inconsistencies noted regarding exchange differences between QMA 610 and QMA 270; - “other” columns needing explanation; - insufficient or no explanation provided for certain lines where Lloyd’s expects NIL entry – for example, line 10 of the QMA 100 “other technical Income” or line 25 “change in other technical income”.
Total Queries to the market	158	100	

Changes for Q4 2017

New / deleted forms

New forms

Form	Description
n/a	no new forms for Q4 2017

Deleted forms

Form	Description
QMA 212	Concentration of investment holdings
QMA 219	Investment analysis - credit classification

Changes for Q4 2017

Additional lines and validation updates

Validation and warning message updates

- We are making a series of updates to correct any previous errors in warning messages (QMA 360, QMA 390, QMA 392, QMA 426).
- Updating warnings to validations – previously, there were warnings in several of the QMA 400 series forms to warn when amounts did not equal the amount on the face of the P&L or Balance Sheet – these are now error messages and will require amending if they arise.
- QMA 104 – a validation is being amended for syndicates that report “change in other technical provisions” on QMA 001 – this previously incorrectly mapped to operating expenses on QMA 104 and will now be mapped to claims incurred.

Additional Lines

- QMA 110 and QMA 100 line 54 will be added to QMA 860 and QMA 861 for the benefit of members agents. This will be an automatic addition with no action required from managing agents.

Changes for Q4 2017

Key updates in the instructions

- Updates required following the removal of QMA 212 and 219 as well as details of new validations added
- Additional guidance/clarity included from the Q2 and Q3 FAQs included
- Updates to guidance around continued/discontinued business splits
- Updates to QMA 400 series of notes (all prior year comparative restatement forms will not be mandatory this year ...unless restating)

Key dates: 2017 – 2018

Activity	Deadline
Q3 2017 QMA	9 November 2017
Q4 2017 QMA	15 February 2018
Annual syndicate financial statements	20 March 2018
Lloyd's Annual Results 2017	29 March 2018
Q1 2018 QMA	10 May 2018
Q2 2018 QMA*	9 August 2018*
Q3 2018 QMA	8 November 2018
QF1 managing agent returns	1 month after quarter end
AF1 managing agent returns	5 months after year end

*now only one deadline for Q2 QMA (subject to auditor review)

Questions?



Thank you

Pillar 3 market briefing

16 October 2017

Agenda

- Overview and current status
- Review of 2017 so far
 - 2016 annual reporting
 - 2017 quarterly reporting
- Quarterly reporting at Q3 and Q4 2017
- 2017 annual reporting
- Next steps

Overview and current status

Pillar 3 reporting is required for Lloyd's and each syndicate

- The Society of Lloyd's Pillar 3 reporting is an aggregation of
 - Submissions from each syndicate
 - Corporation and Central Fund assets and liabilities
 - Data on capital provided – members' funds at Lloyd's
- A Pillar 3 submission is also required in respect of each syndicate (112 in 2017)
 - SFCR and RSR required at Lloyd's level only
 - Quantitative templates are required in respect of each syndicate

The timescales are very tight – and getting 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

Requirements met so far but a steep learning curve

Return	Deadline date for syndicates	Deadline date for Lloyd's	Status and comments
Q4 2016	2 February 2017	24 February 2017	Successfully completed
Q4 2016 - QMC	2 March 2017	-	Successfully completed. QMC absorbed into QSR from Q2 2017
2016 annual	6 April 2017	19 May 2017	Successfully completed. A very high level of queries raised due to first time completion
Q1 2017	28 April 2017	19 May 2017	Successfully completed – deadlines reduced by a week for market and Lloyd's
Q2 2017	28 July 2017	18 August 2017	Successfully completed
Q2 2017 - audited	31 August 2017	-	Successfully completed
Q3 2017	27 October 2017	17 November 2017	Imminent – no significant changes from Q2 2017
Q4 2017	26 January 2018	16 February 2018	Forthcoming – application of EIOPA taxonomy 2.2.0
2017 annual	29 March 2018	4 May 2018	Forthcoming – application of EIOPA taxonomy 2.2.0; variation analysis forms required Deadline reduced by a week for the market and two weeks for Lloyd's

Review of 2017 so far

- 2016 annual reporting
- 2017 quarterly reporting

First Pillar 3 Annual Returns – Completed!

- However, all of the three returns had significant amount of queries and resubmissions

Return	Queries raised	Resubmissions
Annual Solvency Return Part A (ASR)	676	101
Annual Solvency Return Part B (ASB)	139	53
Annual Asset Data (AAD)	94	31

Annual reporting presented significant data challenges

- Additional complexity regarding technical provisions reporting eg required by country
- Analysis of claims incurred and underwriting risks challenging (ASR249, 250, 252)
 - Lloyd's subscription market increases complexity
 - Increased requirements on data from coverholders
- Claims development triangles (ASB) required sourcing of historical data
- Presentation of data by different 'country' analyses is complicated
- Reinsurer analysis is substantial

Main reasons for annual resubmissions

- Cross-form / cross-return checks with significant variances
 - ASR440/450 (premiums, claims and expenses) vs QMA100
 - ASR240/280/283 vs ASR244/286 (projection of future cash flows)
 - ASR430 vs ASR440 (analysis of business by country)
 - ASB245 (claims paid) vs QMA100
 - ASB246/ASR289 (best estimate) vs ASR280/283
 - ASB247 (technical provisions) vs QMA201/205
- Queries on premiums and claims analysis (ASR249/250/251/252)
- Instructions have been updated to outline / clarify the above cross-form and cross-return checks

Pillar 3 quarterly deadlines are being met although a high number of queries continue to be raised by Lloyd's

Quarter	Queries	Resubmissions
Q1 2017	80 (19 QSR, 61 QAD)	28 (13 QSR, 15 QAD)
Q2 2017	246 (44 QSR, 202 QAD)	42 (13 QSR, 29 QAD)
Q2 2017 (audited)	29	7

Inconsistency between QSR and QAD remains a key issue...

- Discrepancies between asset category analysis on QSR002 compared with QAD230
 - This area continued to produce discrepancies with some syndicates, however there is a huge overall improvement since Q4 2016
- Inconsistency between QSR002 and other QSR/QAD forms
 - QSR002 vs other QSR forms
 - QSR002 vs QAD233 for derivatives

...along with the completion of the detailed asset data on QAD

- Assets data quality and completeness
 - External Rating and Internal Rating
 - Acquisition Value
 - Delta
- Reporting format for rate and percentage on QADs
 - Rates must be reported using decimal notation rather than percentages (e.g. 9.31% must be reported as 0.0931)
- Deviation between Total Solvency amount and formulas within QAD230
 - $\text{Quantity} \times \text{Unit Solvency II Price} + \text{accrued interest} = \text{Total Solvency amount}$ (for applicable assets)
 - $\text{Par Amount} \times \text{Unit percentage of par amount} + \text{accrued interest} = \text{Total Solvency amount}$ (for applicable assets)
- Data inconsistency between QAD forms
 - QAD230 vs QAD236
- QAD instructions have been clarified where appropriate

Quarterly reporting for Q3 and Q4 2017

What is new for Q3 2017?

- Assets data (QAD)
 - Additional validations have been introduced within the CMR software to improve the quality of the data
- Some system updates for QSR
 - All analysis cells must be accompanied by clear descriptions
 - Validation update for QSR450 (life premiums, claims and expenses)
- QSR990 and QAD990 comments forms
 - An explanation should be provided on the QSR990 or QAD990 for items where a 'warning' message appears on the CMR software. One explanation shall be sufficient in respect of a group of related items with the same warning message
- Deadline for submission to Lloyd's: 27 October 2017

Q4 2017 introduces EIOPA taxonomy 2.2.0

- Taxonomy 2.2.0
 - In force from Q4 2017 onwards, the changes will have direct impact on CMR software and Lloyd's review process.
 - New queries in various areas will be anticipated for the first time
- The main changes include
 - Closed list is used for credit assessment institution (ECAI)
 - LEI code added to the database to reject the invalid LEI code
 - ISIN codes and other ID codes must be valid
 - Label changes for some forms
 - Some definition and instruction changes on QSR and QAD forms
- Lloyd's Managed Investment Fund (LMIF) template
 - Lloyd's Treasury & Investment Management will provide full look-through on QAD230
 - Some process changes will be included in Q4 2017 instructions

2017 annual reporting

2017 Annual Reporting

- 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)
- ASR includes new variation analysis forms (ASR225 to 228)
- ASB and AAD – no new forms
- Audit requirements remain the same – i.e. reasonable assurance audit required on ASR002, 220, 240, 280, 283, 510 and 511
- Deadline for submission to Lloyd's: 29 March 2018

Main changes since 2016 year end

- ASR002 balance sheet – format updated to reflect QSR / ex-QMC
- ASR225 to 228 variation analysis – instructions updated incorporating current EIOPA explanatory notes
- Instructions updated due to clarifications provided by EIOPA Q&A
 - ASR250 loss distribution risk profile – change in definition of claims incurred
 - ASR252 analysis of underwriting risks – guidance on disclosure of unlimited exposures
 - ASR430(s) / 431(s) activity by country – instructions re-written including examples to assist managing agents. Also, additional total column and cross-form validations with ASR440 shall be developed within CMR
 - AAD235 income & gains/losses – foreign currency gains and losses to be included
 - AAD238 - collateral covering reinsurance receivables on the balance sheet to be included

Main changes since 2016 year end (continued)

- Other changes
 - Instructions and specifications updated for various forms to provide clarification
 - Additional CMR validations and auto-population functionality to increase data accuracy
 - ASR210 off balance sheet items – form has been renumbered to ASR215

Variation analysis forms – ASR225 to 228

These forms analyse the movement in Solvency II balance sheet

- ASR225 – Excess of assets over liabilities (EoAoL)
 - Summarises the different sources of movements into five main areas
 - Investments and financial liabilities – detail provided in ASR226
 - Technical provisions – detail provided in ASR227 (and ASR228)
 - “Pure” capital items (not applicable to syndicates)
 - Other main variations linked to tax and distributions
 - Other variations not explained elsewhere

ASR226 analyses movement in investments and financial liabilities

- Provides breakdown of variation in investments and financial liabilities into
 - Valuation movements on investments
 - Valuation movements on financial liabilities and subordinated liabilities
 - Investment revenues
 - Investment expenses
- Investments should reconcile to AAD235 income & gains/losses (in total)

ASR227 analyses the change in technical provisions

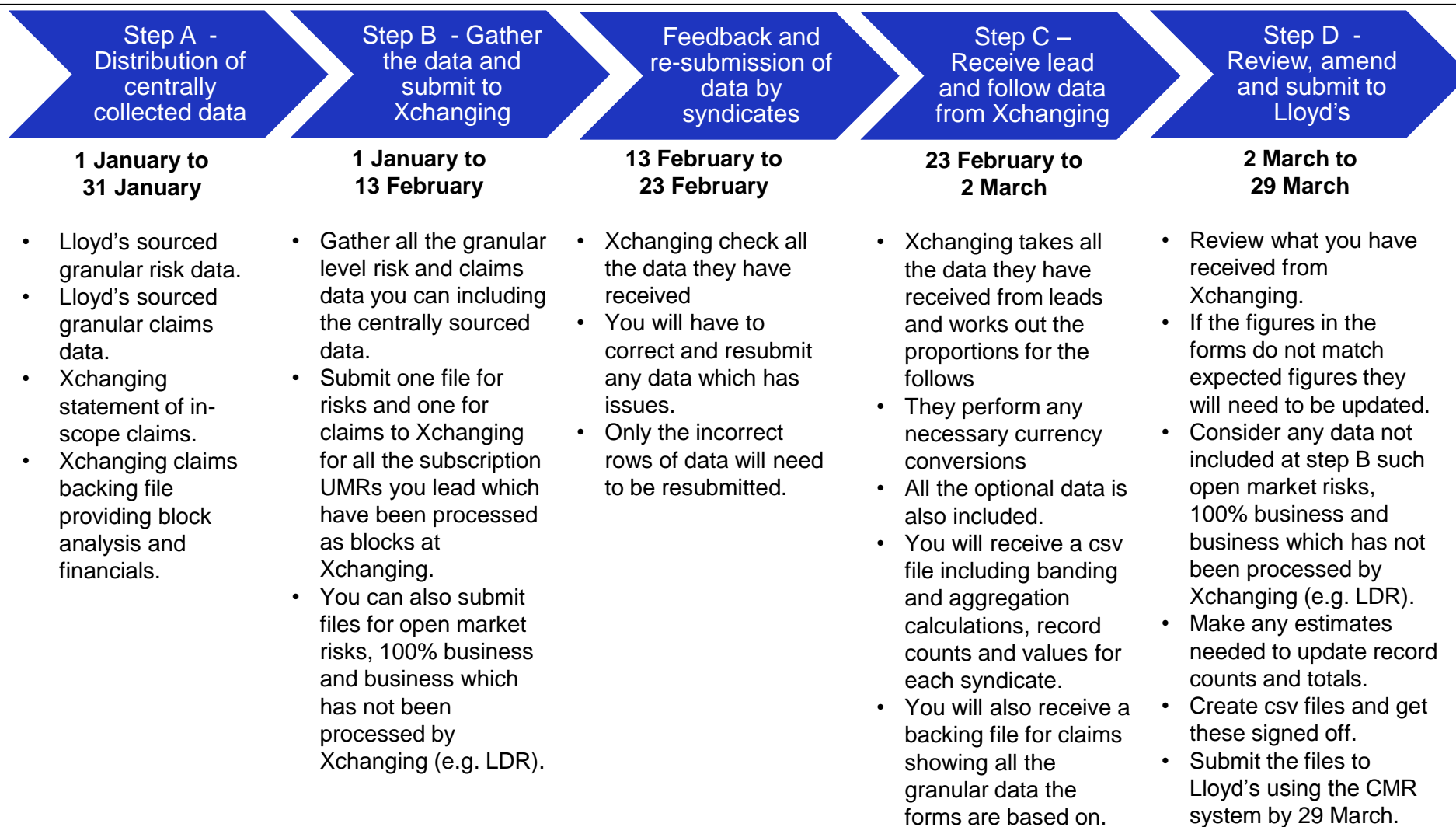
- ASR 225 provides breakdown of variation in technical provisions into
 - Best estimate movements by sources of changes (such as new business, changes in assumptions, experience etc.)
 - Changes in technical flows of the period
- The above breakdown excludes risk margin and technical provisions calculated as a whole
- However, lines 20 and 21 – “Gross Technical Provisions” and “Reinsurance recoverables” should include risk margin and technical provisions calculated as a whole, as they represent total variation in technical provisions (linked to ASR225)

ASR228 compares technical flows with technical provisions

- Provides further breakdown of ASR227 requiring the technical flows and technical provisions to be split into
 - Risks accepted during period; and
 - Risks accepted prior to period
- CMR cross-form validations between ASR227 and ASR228 shall be developed (see ASR specifications)

Coverholder reporting (ASR249, 250 and 252) – December 2017

The Xchanging Solvency II Pillar 3 Risk and Claims Service will operate as previously...



Things to look out for...

- Changes to requirements outlined in updated instructions
- Adhere to cross-form / cross-return checks highlighted in updated instructions
- Insert comments within form 990 for relevant explanations to reduce queries
- Review FAQs when published / updated
- Use CMR UAT environment for testing / preparing return
- Potential delays when uploading data into CMR in certain times (when other returns such as TPD are due)

Next steps

Pillar 3 timetable for rest of 2017 and 2018¹

Return	Deadline date for syndicates	Deadline date for Lloyd's	Comments
Q3 2017	27 Oct 2017	17 November 2017	No significant change from Q3 2017
Q4 2017	26 Jan 2018	16 Feb 2018	EIOPA taxonomy 2.2.0 applies
Q4 2017 – audited	1 March 2018	-	Audit only required for QSR002 and QSR210 – needed for Lloyd's capital tests
2017 annual	29 March 2018	4 May 2018	EIOPA taxonomy 2.2.0 applies; variation analysis forms required Deadline reduced by a week for the market and two weeks for Lloyd's
Q1 2018	26 April 2018	11 May 2018	Lloyd's deadline reduced by one week
Q2 2018	26 July 2018	10 August 2018	-
Q2 2018 – audited	30 August 2018	-	Audit only required for QSR002 and QSR210 – needed for Lloyd's capital tests
Q3 2018	25 October 2018	9 November 2018	-

¹ See market bulletin Y5121, 2 October 2017

Guidance from Lloyd's

- Draft 2017 annual reporting instructions and specifications were issued to agents in September
 - Final instructions shall be provided by mid November
- Updated CMR systems for annual reporting shall be made available for UAT by mid Jan 2018
 - Will be live by end February 2018
- All Pillar 3 final instructions and specifications are available on lloyds.com¹
- Please submit Pillar 3 queries to lloyds-SolvencyReturns@lloyds.com
 - Please don't use solvency2@lloyds.com for Pillar 3 queries

¹ <https://www.lloyds.com/the-market/operating-at-lloyds/solvency-ii/information-for-managing-agents/guidance-and-workshops/reporting-and-disclosure>

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