



SOLVENCY II

Supervisory Reporting and Disclosure Workshop

13 & 14 NOVEMBER 2012

AGENDA

- ▶ Introduction
- ▶ Solvency II balance sheet
- ▶ SREP workstream update
- ▶ Table discussion
- ▶ Group feedback
- ▶ Next steps

INTRODUCTION



UNCERTAINTY OVER SOLVENCY II TIMETABLE...

- ▶ Intended start date 1 January 2014
- ▶ Agreement still to be reached on Omnibus II
- ▶ Any delay to Omnibus II will delay Level 2 then Level 3 measures
- ▶ Official announcement of further delay likely
- ▶ FSA (Julian Adams speech Oct 2012):
 - 2014 ‘completely unrealistic’
 - ‘Aspiration to allow the early use of Solvency II models by firms to meet their existing ICAS requirements’
- ▶ Lloyd’s syndicates using Solvency II calibrated models to meet ICAS from 2013



...PROVIDES SCOPE TO REPLAN REMAINING WORK...

Lloyd's working with LMA and FSA to

- ▶ Devise a pragmatic approach which enables cost effective completion of the programme
- ▶ Leverage the benefits of Solvency II without being held to the entirety of the Solvency II tests and standards

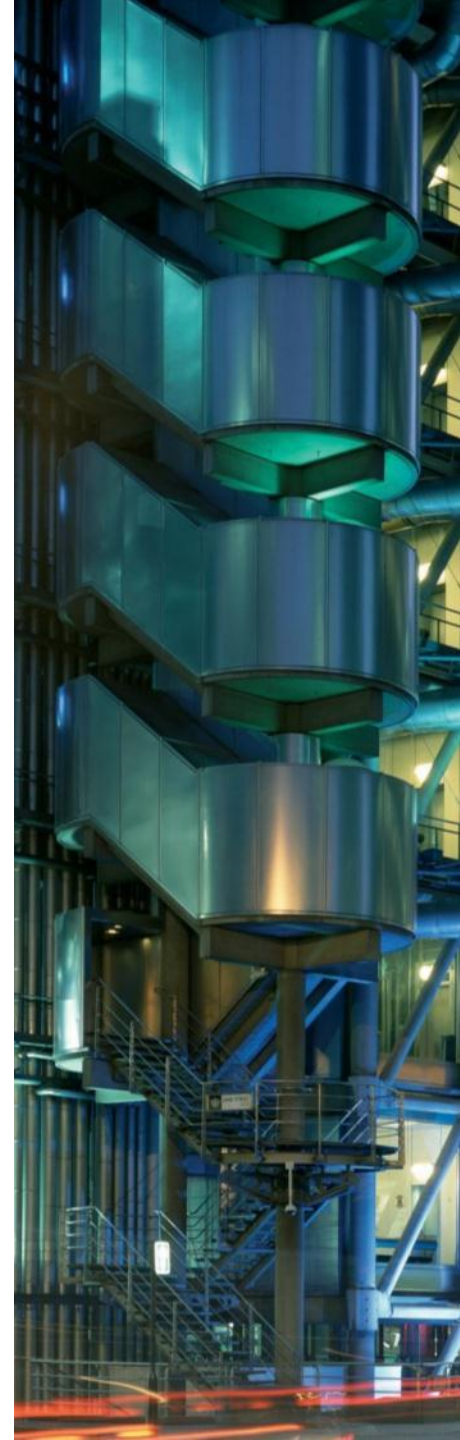
Lloyd's will update agents by end of year

- ▶ Agent Directors' briefing 29/30 November
 - Lloyd's will outline approach and plan for 2013
- ▶ Plan to circulate further detail to agents in December

...BUILDING ON WHAT WE HAVE ALREADY DONE



SOLVENCY II BALANCE SHEET

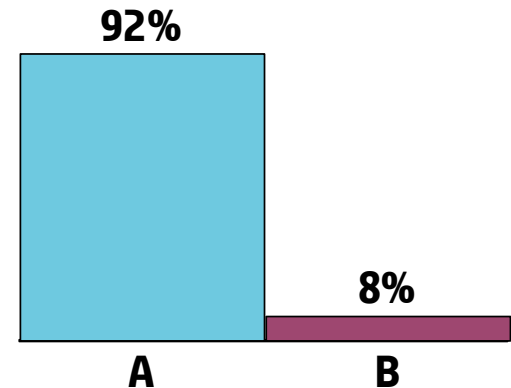


WERE THE ADJUSTMENTS IN YOUR SII BALANCE SHEET RECONCILED AGAINST AMOUNTS IN YOUR TP RETURN?

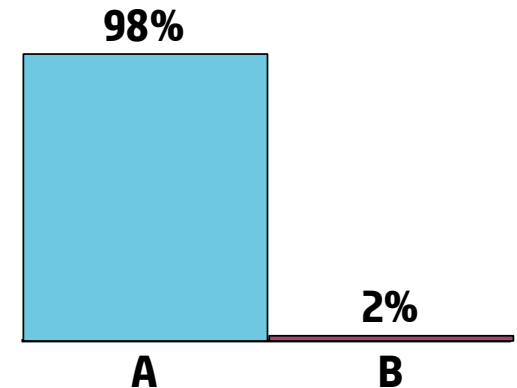
A. Yes

B. No

13 NOVEMBER RESULTS:



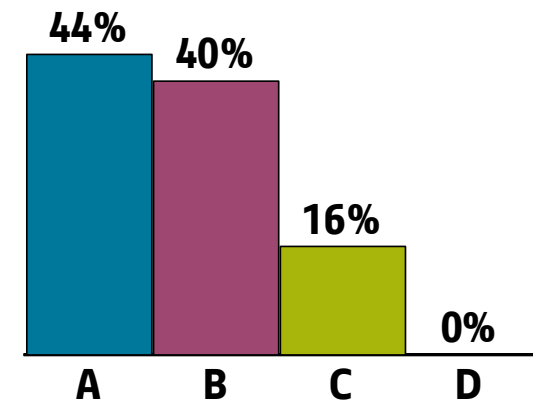
14 NOVEMBER RESULTS:



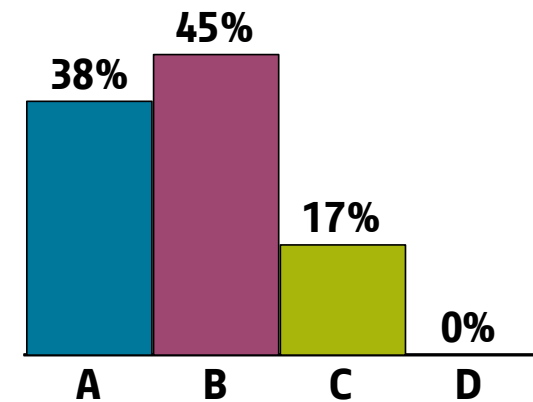
DOES YOUR FINANCE TEAM FULLY UNDERSTAND THE ADJUSTMENTS IN THE SII BALANCE SHEET COMPARED WITH THE AMOUNTS REPORTED IN THE TP RETURN?

- A. Yes, fully understand
- B. Yes, to some extent
- C. No but the finance team rely on the actuaries to reconcile the figures
- D. No and a reconciliation is not carried out

13 NOVEMBER RESULTS:



14 NOVEMBER RESULTS:



JUNE 2012 SII BALANCE SHEET: LLOYD'S MAIN FINDINGS (1)

- ▶ Apparent lack of interaction between finance and actuarial teams
- ▶ Differences between figures reported in the TP return and those in the balance sheet
 - E.g. future premiums, overall TPs
- ▶ Finance team not clear on the relationship between the adjustments made on the balance sheet in respect of future premiums, compared with future premiums reported by the actuaries in the TP return



JUNE 2012 SII BALANCE SHEET: LLOYD'S MAIN FINDINGS (2)

- ▶ Errors in the split of members' balances by Year of Account (YOA)
 - Allocation of risk margin
 - Specific items such as DAC
- ▶ Recognition of reserve margins – higher than expected
- ▶ Difference in the earning patterns for UK GAAP and Solvency II i.e. finance team's view of earning is different from the actuaries



WHAT IMPACT DID IT HAVE ON THE RESULT?

	£bn	£bn
UK GAAP balance*		(1.4)
Solvency II valuation adjustments:		
Removal of earned reserve margin and UPR	3.1	
Binary events	(0.7)	
Additional expense provisions	(0.7)	
Inclusion of unaccepted contracts	0.4	
Discounting	1.2	
Risk margin	(1.9)	
Consequential (non TP) impact (mainly PC)	<u>(0.1)</u>	
		<u>1.3</u>
Solvency II balance*		<u>(0.1)</u>

* Cumulative balance attributable to members, 30.06.2012



31 DECEMBER 2012 SUBMISSION

- ▶ New form introduced to assist reconciliation of members' balance between UK GAAP and Solvency II (QMC210)
 - Analysis of adjustments by YOA
 - Intended to assist agents in preparation and Lloyd's review of adjustments

- ▶ Full audit opinion required (similar to the Q4, QMA)
 - Solvency II balance sheet numbers will support capital stack and members' release test going forward

- ▶ Reported through Core Market Return system (QMC)
 - QMC2 available in production now
 - QMC210 will be released for UAT December 2012
 - QMC210 available in production – January 2013

- ▶ Due for submission **7 March 2013** (2 weeks after QMA)



QMC210: RECONCILIATION OF MEMBERS' BALANCES

Reconciliation from UK GAAP to Solvency II members' balance: 31 December 2012			
		2012	2013
		A	B
UK GAAP members' balance	1	+/-	
<i>QMC column A line</i>		61	62
Adjustments			
Elimination of 100% UPR requirement (net of RI UPR)	2	-	
Elimination of DAC (net of RI DAC)	3	+	
Elimination of margin for prudence in future claims and RI bad debt	4	-	
Future premiums included in technical provisions - incepted contracts (net of acquisition costs)	5	+/-	
Future premiums included in technical provisions - unincepted contracts (net of acquisition costs)	6	+/-	+/-
Re(insurance) receivables/payables transferred to Technical Provisions	7	+/-	
Net premium provision - future claims cost (including ALAE)	8	+	+
Additional expenses not included under UK GAAP	9	+	+
Binary events	10	+	+
Discounting	11	-	-
Risk margin (QMC column C line 36)	12	+	+
Change in profit commission provision	13	+/-	+/-
Other [please explain]	14	+/-	+/-
Total adjustments (2 to 14)	15	Sum (A2:A14)	Sum (B6; B8:B14)
Solvency II members' balance (1+15)	16	A1+A15	B15
<i>QMC column C line</i>		61	62

THREE STEPS TO COMPLETING THE SII BALANCE SHEET

- ▶ Line reallocations
 - Debtor balances to negative technical provisions
 - = **no change to members' balances**
- ▶ Adjust UK GAAP balance sheet to a 'best estimate'
 - Margins within reserves
 - Other margins eg additional premium receivable
 - = **net GAIN to members' balances**
- ▶ Address the Solvency II valuation differences
 - Discounting
 - Risk margin
 - Binary events
 - Profit/loss on unearned premium
 - Additional expense provision
 - Consequential changes eg profit commission
 - = **net +/- change to members' balances**

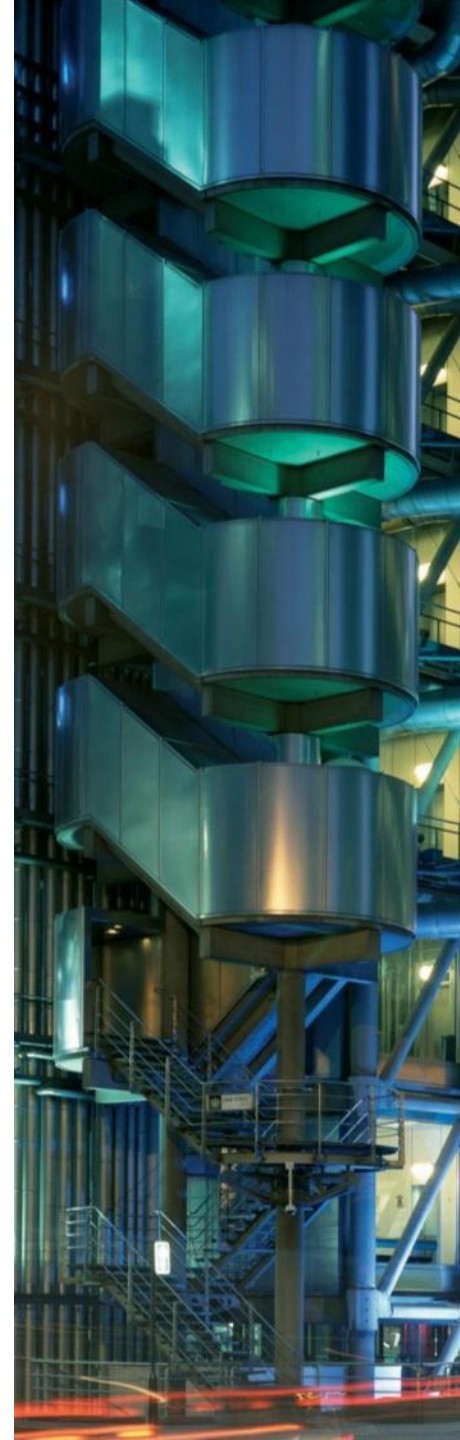


THINGS TO CONSIDER

- ▶ Reconciliation between adjustments in the balance sheet and the TP returns
- ▶ Treatment of LCA balances
- ▶ Treatment of reinsurance receivables (recoverable on paid claims)
- ▶ Reinsurers' share of deferred acquisition costs (DAC)
- ▶ Accruals on the GAAP balance sheet for expenses related to technical provisions
- ▶ Treatment of overseas deposits and comingled funds
- ▶ Treatment of money market funds



SREP WORKSTREAM UPDATE



PILLAR 3 DRY RUN DEFERRED...

- ▶ Main Pillar 3 dry run scheduled for Spring 2013 **deferred**
- ▶ There **will** be a dry run for QAD forms needed for LIM asset collection
- ▶ Will prepare agents for live LIM asset data collection
- ▶ Pillar 3 CMR returns available for UAT now
 - Will help agents familiarise themselves with forms
 - Should assist with gap analysis

...EXCEPT FOR ASSET DATA



ASSET DATA NOT NEW REQUIREMENT...

Returns being discontinued

- ▶ LIM asset data collection
 - Investment assets
 - Hedging
 - Other derivatives & comments

Being replaced by single QAD submission

- ▶ QAD230 (asset portfolio)
- ▶ QAD233 (derivatives – open position)
- ▶ QAD236 (investment funds – look-through approach)

...JUST STREAMLINING WHAT WE COLLECT NOW



LIM ASSET COLLECTION – TIMETABLE FOR 2013

- ▶ Asset data required to help calibrate LIM and for risk monitoring purposes
- ▶ Existing assets data collected will be collected via QAD
 - Dry run will take place June 2013 based on data as at 31 December 2012
 - ‘Live’ submission required by 1 November 2013 based on data at 30 September 2013
- ▶ See September 2012 slides on lloyds.com (VBAL workstream) for more information



OVERSEAS DEPOSITS AND COMINGLED FUNDS HELD AT LLOYD'S

- ▶ Investment fund (look through approach) required at security level
- ▶ Lloyd's intending to centrally report overseas deposits:
 - As investment funds on QAD/AAD 230
 - On a look-through basis on QAD/AAD 236
 - Subject to agreement with FSA



WHAT'S HAPPENING ON TECHNICAL ISSUES?

- ▶ Updated **detailed draft Pillar 3 QMR instructions** (reflecting EIOPA July 2012 updates) shall be provided end Q1 2013
- ▶ Template and illustrative example on **qualitative reporting requirements** shall be provided once Level 2 finalised
- ▶ Lloyd's in discussion with Xchanging re provision of:
 - Data on **salvage and subrogation**
 - Analysis of business written through **binders**
- ▶ Pillar 3 reporting of **reinsurance data** will be combined with existing PMD requirements – but not before 2014
- ▶ Lloyd's seeking to develop pragmatic solutions to reporting of historic data



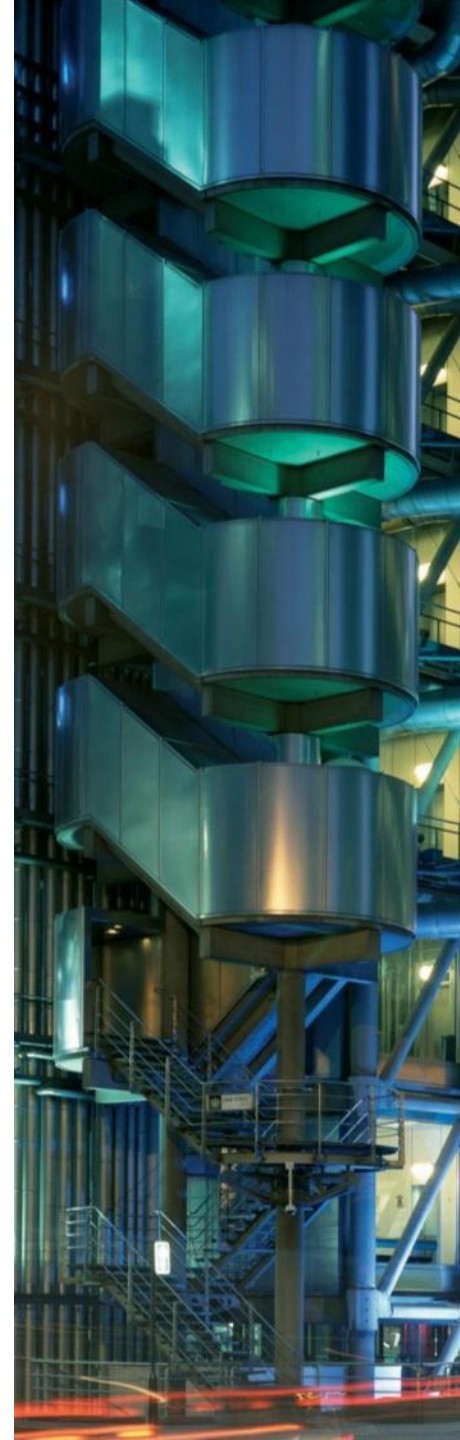
SREP IMPLEMENTATION PLANS - FEEDBACK

GOOD PLANS	AREAS FOR DEVELOPMENT
<ul style="list-style-type: none">✓ Key areas under reporting framework, process, systems and data requirements clearly addressed✓ Timescales for completion of work clearly set out✓ Relevant and demonstrable evidence provided✓ Key findings of gap analysis highlighted✓ Coherent and credible contingency plan included	<ul style="list-style-type: none">✗ Inadequate information to enable assessment of the status of the syndicate's SREP project✗ Key areas under reporting framework not covered✗ Unclear when tasks are planned to be finalised✗ List of evidence not provided or insufficient✗ Proposed actions for addressing gaps identified not provided

BUT WHAT SHOULD YOU DO IN 2013?

YOU SHOULD	YOU DON'T NEED TO
<ul style="list-style-type: none">✓ Complete gap analysis and identify sourcing based on the latest EIOPA templates<ul style="list-style-type: none">• material further changes unlikely• consult with your IT and data providers✓ Plan for systems implementation<ul style="list-style-type: none">• Automate as much as possible✓ Plan for early close if appropriate✓ Review SREP implementation plan✓ Participate in CMR UAT and QAD dry run	<ul style="list-style-type: none">✗ Build the systems to fill the gaps✗ Accelerate internal reporting timetables or Implement early close now✗ Report Pillar 3 numbers on a 'dry run' basis except for QAD✗ Prepare draft responses to qualitative reporting requirements✗ Submit evidence templates for SREP (<i>but should be kept up to date to align with plans</i>)

TABLE DISCUSSION



SUGGESTED DISCUSSION TOPICS

- ▶ What is the impact of the Solvency II delay on agents' plans for SREP?
- ▶ What are the key challenges presented by the Solvency II balance sheet?
- ▶ What are the key issues being encountered in the implementation of Pillar 3?
- ▶ What can Lloyd's do to help agents on the Solvency II balance sheet and implementation of Pillar 3?



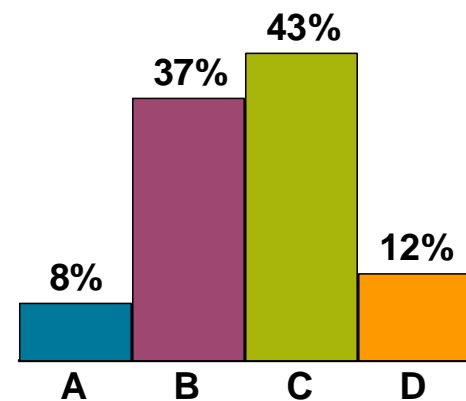
GROUP FEEDBACK



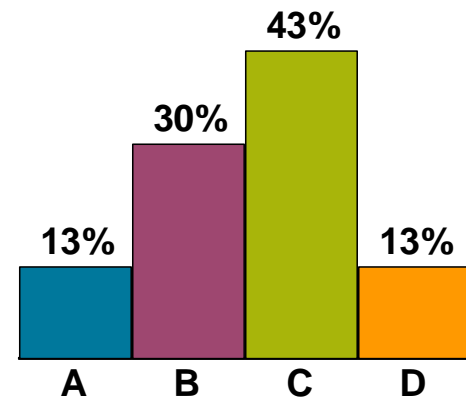
HOW WILL THE EXPECTED DELAY AFFECT YOUR PILLAR 3 RESOURCING PLANS?

- A. We are intending to use additional resource (contract/consultants) and will go ahead with this as planned
- B. We shall review the use of additional resource and hope to reduce this given the new timetable
- C. The extra time will allow us to progress our work using internal resources only
- D. Cannot say at this time until the specific timetable becomes clearer

13 NOVEMBER RESULTS:



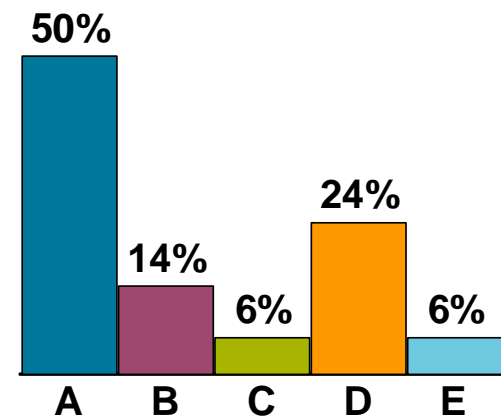
14 NOVEMBER RESULTS:



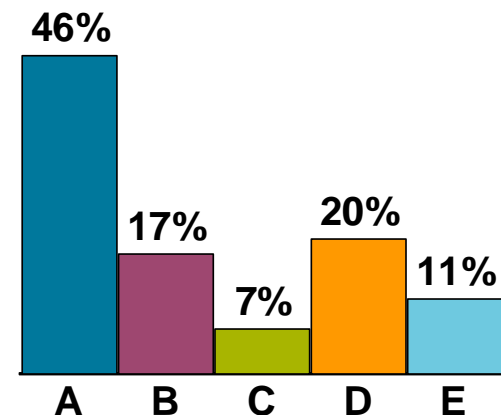
WHAT DID YOU FIND MOST DIFFICULT IN COMPLETING THE SOLVENCY II BALANCE SHEET ?

- A. Understanding the adjustments to TPs
- B. Impact of consequential changes eg profit commission on Solvency II result
- C. Allocating items between years of account
- D. Explaining adjustments to auditors
- E. Nothing – it was very easy!

13 NOVEMBER RESULTS:



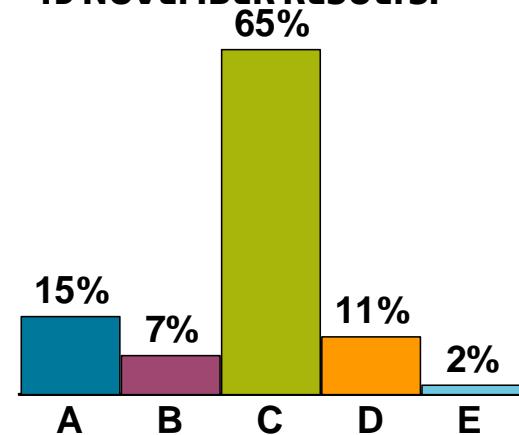
14 NOVEMBER RESULTS:



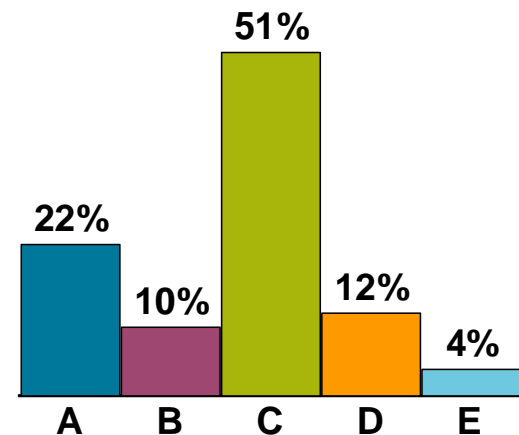
WHAT ARE THE KEY ISSUES PRESENTED BY PILLAR 3?

- A. Accelerated deadlines
- B. How to implement 'early close'
- C. Uncertain final requirements
- D. Other business demands on resources
- E. Other

13 NOVEMBER RESULTS:



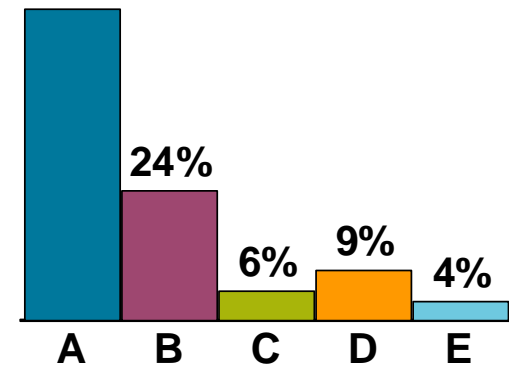
14 NOVEMBER RESULTS:



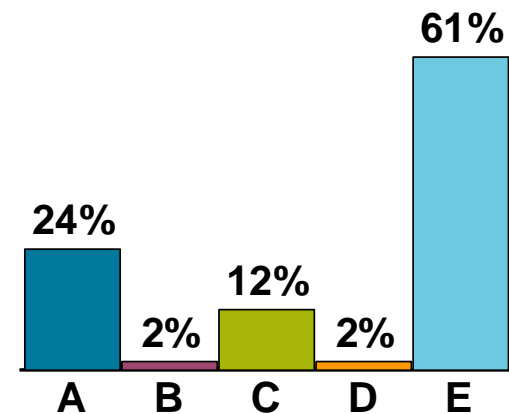
HOW CAN LLOYD'S HELP?

- A. More detailed instructions and technical guidance
- B. Completion of reporting centrally where possible
- C. Pillar 3 'drop in' facility
- D. Pro forma completed qualitative template
- E. Other

**13 NOVEMBER RESULTS:
57%**



14 NOVEMBER RESULTS:



NEXT STEPS



PILLAR 3 AND RELATED DELIVERABLES 2013

Quantitative

- ▶ Solvency II balance sheet 31 December 2012 – 7 March
- ▶ Updated detailed forms and instructions from Lloyd's – end Q1
- ▶ TP submissions 31 December 2012 – 4 April
- ▶ CMR (QAD) dry run for LIM Asset Data (LAD) – June
- ▶ Solvency II balance sheet 30 June 2013 – 5 September
- ▶ LAD data 30 September 2013 via CMR – 1 November

Qualitative

- ▶ Initial UAT feedback - 14 December 2012
- ▶ Subsequent UAT feedback - Q1/Q2



WHAT HAPPENS NEXT

- ▶ Slides will be made available on lloyds.com after both workshops
- ▶ Solvency II agent directors' briefings 29/30 November
- ▶ QMC forms, instructions and audit report will be provided by end November
- ▶ QAD return in production environment for dry run – June 2013



