



# **SUPERVISORY REPORTING AND DISCLOSURE WORKSHOPS**

**3 & 4 JUNE 2014**

# AGENDA

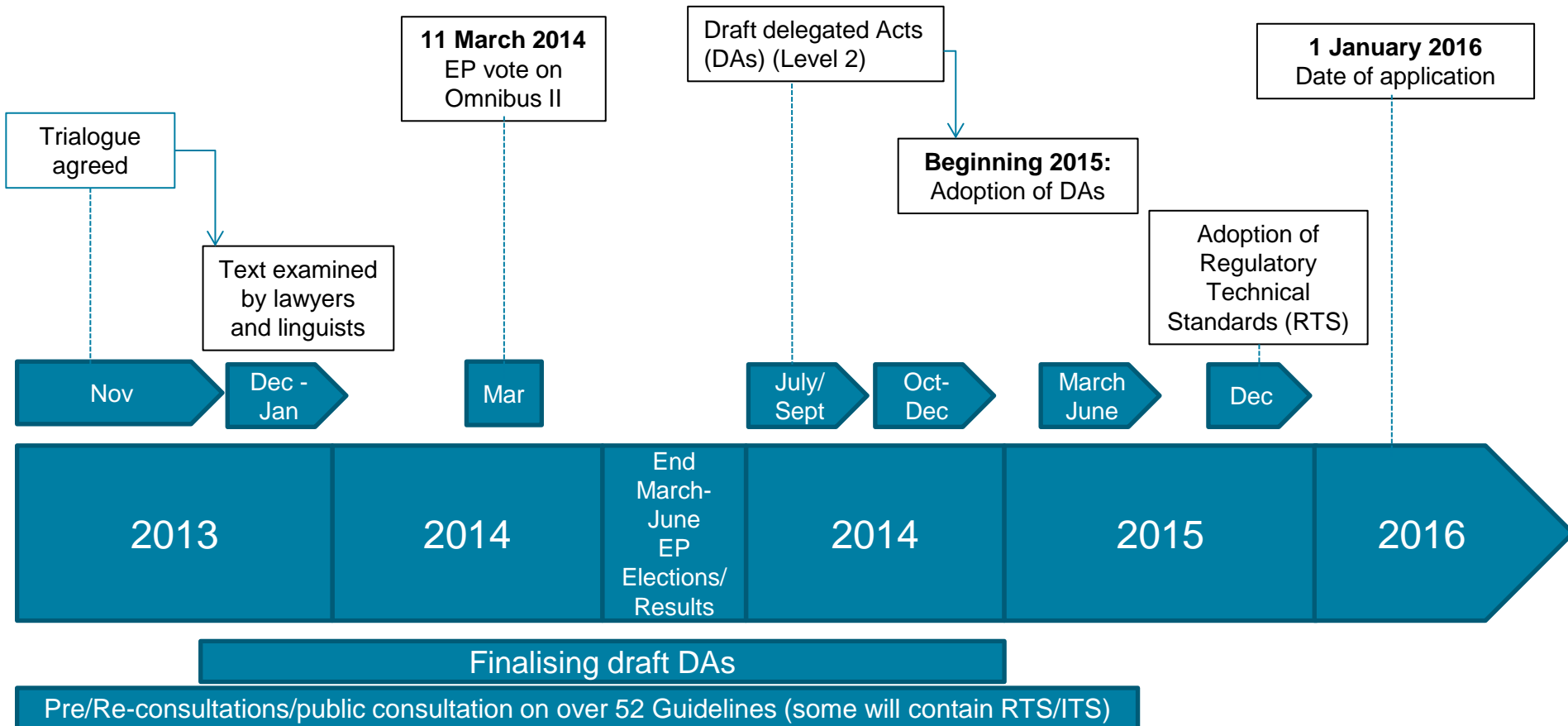
- ▶ **Introduction**
- ▶ **The Lloyd's Pillar 3 dry run**
- ▶ **Preparing for the EIOPA Guidelines**
- ▶ **Finalisation of Pillar 3 requirements**

## **Table discussion**

- ▶ **Accounting developments at Lloyd's**
- ▶ **Quantitative submissions to come in 2014**
- ▶ **Summary / Q&A**

# Approaching the end of a long and winding road...

- ▶ Solvency II now confirmed to start 1 January 2016
- ▶ European Parliament has now approved Omnibus II
- ▶ Level 2 measures (Delegated Acts) will follow Omnibus II



# Pillar III reporting timelines are accelerated...

<b>Syndicate reporting to Lloyd's</b>	<b>31.12.14</b>	<b>30.09.15</b>	<b>Year to 31.12.16</b>	<b>Year to 31.12.17</b>	<b>Year to 31.12.18</b>	<b>2019+</b>
Quarterly		5	5	4	4	3
Annual	15		14	12	10	8

<b>Overall deadline (weeks)#</b>	<b>31.12.14</b>	<b>30.09.15</b>	<b>Year to 31.12.16</b>	<b>Year to 31.12.17</b>	<b>Year to 31.12.18</b>	<b>2019+</b>
Quarterly		8	8	7	6	5
Annual	22		20	18	16	14

Interim reporting	Solvency II
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# Per latest proposals

...gradually

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# A learning process for both the market and Corporation

- ▶ Will test:
  - Agents' procedures and processes to submit Solvency II information to Lloyd's
  - Lloyd's Solvency II Core Market Return (CMR) systems
  - Lloyd's central review and aggregation processes
  
- ▶ Agent submissions to be submitted on a 'best efforts' basis
  - Data as at 31 December 2013
  - No formal Board sign-off but review by senior individual required (FD/CFO, FC, Head of Syndicate Reporting)
  - No audit
  
- ▶ Deadline for submission **25 September 2014**



# Quantitative data, aligned to the requirements of the EIOPA Guidelines...

Template	ASR reference
Balance sheet	002
Own funds	220
Non-life technical provisions	240/241/242
Assets and liabilities by currency	260
Life technical provisions	280/281
Health technical provisions	283/284
MCR	510/511
SCR from internal model	522

...will be collected in the ASR

## ...and for asset data via the AAD

Template	AAD reference
List of assets	230
List of open derivatives	233
Investment funds (look-through)	236



# General observations

- ▶ Significant effort required
  - Engagement team(s) may be new to Solvency II
  
- ▶ Careful planning needed to co-ordinate data provision, aggregation into return and review
  
- ▶ Balance sheet, technical provisions and asset data already submitted via QMC<sub>1</sub> and TPD<sub>2</sub>
  
- ▶ New data by currency for balance sheet and by country for technical provisions

1) QMC = Quarterly Monitoring Return C

2) TPD = Technical Provisions Data

# Balance sheet similar to QMC

## ▶ Balance sheet – ASR002

- Same as QMC002 except for:
  - Aggregation of some lines in QMC002
  - Adjustment column in QMC002
  - Members' balances analysis in QMC002
- Column A should agree to QMA<sub>1</sub>
- Assets amounts should reconcile to AAD230 listing of assets

## ▶ Own funds – ASR220

- All items should be allocated to Tier 1 column B<sub>2</sub>
- Members' contributions should include funds in syndicate (FIS) where applicable

- 1) QMA = Quarterly Monitoring Return A: QMA002 column C
- 2) If you do not consider this to be the case please contact Lloyd's

# Technical provisions summary must be reported by Solvency II lines of business...

## ▶ **Non-life technical provisions – ASR240**

- By Solvency II lines of business
- Best estimate and risk margin should agree to the TPD
- A suggested mapping from risk codes is available from Lloyd's
- Total gross best estimate should reconcile to the balances reported in ASR002, lines 54 and 58
- Total risk margin should reconcile to balances reported in ASR002, lines 55 and 59
- Total recoverables from RI should reconcile to balances reported in ASR002, line 38

## ▶ **Non-life technical provisions – ASR241**

- Reports cash flows by Solvency II lines of business
- Salvage and subrogation included in cash in-flows where material

## ...and by material country

### ▶ **Non-life technical provisions – ASR242**

- Gross best estimate (discounted) by line of business required by material country
  - Material country set by Lloyd's to ensure consistent data collection across market
- Should agree to gross best estimate reported in ASR240, lines 6 plus 16
- Allocation to countries should be done on a reasonable basis\*

\* Refer to TPD allocation methodologies document (May 2011) for general guidance:

<http://www.lloyds.com/~media/Files/The%20Market/Operating%20at%20Lloyds/Solvency%20II/2011%20Guidance/allocation%20methodologies%20guidance.pdf>

# Summary balance sheet required by currency

## ▶ **Assets and liabilities by currency – ASR260**

- Summary of balance sheet by material currencies
  - ▶ '6+1' currencies set by Lloyd's to ensure consistency
- Should be the original currency (not settlement currency)
- All currencies should be reported unless where dispensation is given for current TPD reporting
- Should reconcile to ASR002

# Life technical provisions are also required by Solvency II line of business...

## ▶ Life technical provisions – ASR280

- By Solvency II lines of business
- Non-life syndicates with annuities, for example, PPO business should complete this form

## ▶ Life technical provisions – ASR281

- Gross best estimate by material country specified by Lloyd's
- Should reconcile to gross best estimate reported in ASR280, line 2
- Allocation to countries should be done on a reasonable basis

...and material country

# Health data requirements aligned to those for life business...

## ▶ Health technical provisions – ASR283

- Technical provisions by Solvency II lines of business
- Total gross best estimate should reconcile to ASR002, line 62
- Total recoverables from RI should reconcile to ASR002, line 39
- Total risk margin should reconcile to ASR002, line 63

## ▶ Health technical provisions – ASR284

- Gross best estimate by material country specified by Lloyd's
- Should reconcile to gross best estimate reported in ASR283, line 2
- Allocation to countries should be done on a reasonable basis

...to be completed for health business similar to life

# MCR data available from existing information...

- ▶ **Minimum Capital Requirement (MCR) Non-life – ASR510**
  - Net best estimates should agree to ASR240, line 26
  
- ▶ **Minimum Capital Requirement (MCR) Life – ASR511**
  - Non-life syndicates with annuities should also complete this form
  - Net best estimates should agree to ASR280 and ASR283, line 8



# Internal model SCR is required from LCR

## ► Solvency Capital Requirement (SCR) – ASR522

- Reported for 2014 underwriting year
- One year SCR should be reported
- Should agree to the 31 December 2013 final LCR<sub>1</sub>
- Columns A and B should be the same<sub>2</sub>

1) LCR = Lloyd's Capital Return: LCR309

2) If you do not consider this to be the case please contact Lloyd's

# Asset reporting based on QAD...

- ▶ **List of assets – AAD230**
- ▶ **List of open derivatives – AAD233**
- ▶ **Investment funds (look-through) – AAD236**
  
- ▶ Additional requirements beyond current QAD:
  - Issuer or counterparty code/group code (AAD230 and AAD233)
  - Issuer code/group code – 20 digit alphanumeric (AAD236)
  - Issuer or counterparty code type/group code type – LEI/PRE-LEI
  - Issuer sector – changed to NACE codes (AAD230)

...with new requirements on issuer/  
counterparty codes

# Lloyd's support available for agents

- ▶ Detailed Solvency II CMR instructions available since early 2013
  - Specific dry run instructions will be published by 30 June
  
- ▶ CMR forms have been available in UAT since early 2013
  - Updated templates in UAT now available and next update available end of June
  - Will be ready for production (use) by end of July
  
- ▶ Individual feedback to agents will be provided Oct/Nov
  
- ▶ Workshops reporting back on main themes and conclusions Nov
  
- ▶ Lessons learned reflected in further guidance by end 2014

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# EIOPA's Guidelines impose interim Solvency II reporting from December 2014

- ▶ Guidelines aimed at facilitating a smooth, harmonised transition towards Solvency II
  - To help insurers and supervisors prepare
- ▶ Requirements are a significant sub-set of full Solvency II
  - Annual quantitative and qualitative reporting at 31 Dec 2014
  - Quarterly quantitative reporting at 30 September 2015

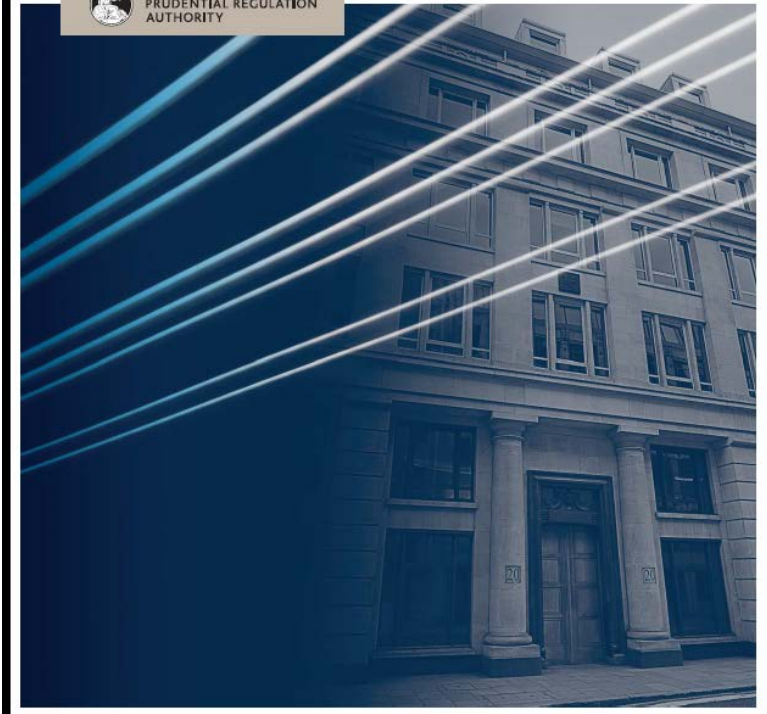
Supervisory Statement | SS4/13

Solvency II: applying EIOPA's preparatory guidelines to PRA-authorized firms

December 2013



BANK OF ENGLAND  
PRUDENTIAL REGULATION  
AUTHORITY



# Same quantitative scope as for dry run...

- ▶ As for Solvency II 'live', requirement applies to Lloyd's overall
  - Lloyd's will collect syndicate level data and aggregate it with central information
- ▶ Quantitative submission is same scope as dry run
- ▶ Additional qualitative submission required as at 31 December 2014
- ▶ Syndicate submissions will be made using CMR
  - Will require Board sign-off but not audit

...with Board sign-off to test reporting process

# Year end qualitative reporting is subset of full Solvency II narrative requirements...

## ▶ **System of governance**

- General governance requirements- e.g. governance structure, delegation of responsibilities, remuneration policy
- Fit and proper requirements
- Risk management system
- Prudent person principle
- Description of key functions and processes e.g. internal control system, internal audit function, actuarial function and outsourcing policy

## ... a significant subset

### ▶ Risk profile

- Material risk exposure
- Material risk concentrations
- Risk mitigation practices
- Risk sensitivities

### ▶ Valuation for Solvency purposes covering

- Assets
- Technical provisions
- Other liabilities

### ▶ Capital management



## Agents must articulate their own circumstances in the qualitative reporting...

- ▶ Where an agent has more than one syndicate, there may be common material submitted across syndicates
  - ▶ Submission via 'freeform' text submission in CMR
    - Content up to agent to specify, similar in concept to ORSA
    - Will be covered by Board sign-off
  - ▶ Lloyd's will provide guidance and a template by end August
    - Guidance will set out areas to be covered...
    - ...not 'boiler plate' wording to be used
- ...covering the specified areas

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# Are the Pillar 3 requirements final now?

- ▶ EIOPA's view is that they are 'near final'
- ▶ Reasonable for agents to prepare based on requirements as published
- ▶ Remaining uncertainties:
  - Reinsurance data
  - Variation analysis (can only apply from 2<sup>nd</sup> full year of Solvency II)



# The full quantitative Pillar 3 requirements...

- ▶ Requirements difficult to meet based on typical current manual reporting processes and systems
- ▶ Agents must have a clear implementation plan to :
  - Bridge identified data gaps
  - Review current processes and procedures
  - Determine and implement IT solutions
  - Timetable preparation and review

...are significantly more than required for the Guidelines

# Key issues for quantitative reporting

- ▶ Allocation of balances to Solvency II lines of business
- ▶ Class of business v line of business
- ▶ Underwriting year v accident year
- ▶ Reporting of binders - risk/claim level
- ▶ Reporting by country – Branch (FOE) and FPS
- ▶ Reporting by currency
- ▶ Salvage and subrogation

# What about audit?

- ▶ Final requirements still not clear
  
- ▶ Audit will only apply to some information reported in annual public Solvency & Financial Condition Report
  - As a minimum the balance sheet and own funds
  - Very unlikely to apply to annual qualitative information or quarterly reporting
  
- ▶ EIOPA will make final decision, expected 2015

# How will Lloyd's clarify the final requirements?

- ▶ Overall, requirements are unlikely to change much now:
  - Reflected in Lloyd's CMR UAT systems and instructions 2013
  
- ▶ For reinsurance, Lloyd's will look to integrate as much as possible with Syndicate Reinsurance Programme (SRP):
  - Ongoing project with conclusion and advice to market in Q2 2015
  
- ▶ Any final changes arising through Level 3 measures shall be reflected in instructions
  
- ▶ Final instructions and live CMR systems for full Solvency II reporting will be available end Q3 2015

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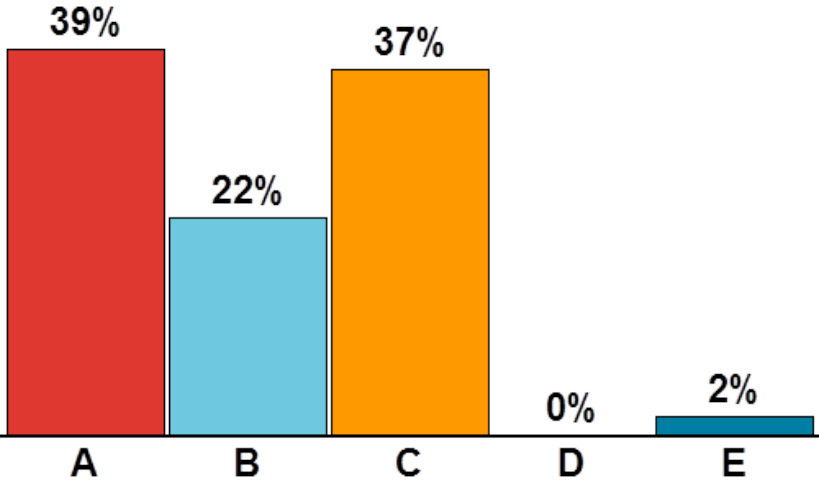
# Discussion topics

- ▶ Identifying and sourcing data gaps
- ▶ Policies and procedures to meet accelerated reporting timetable
- ▶ Implementation of enhanced IT facilities
- ▶ Need to strengthen resources
- ▶ Impact of new UK GAAP
- ▶ Anything else?

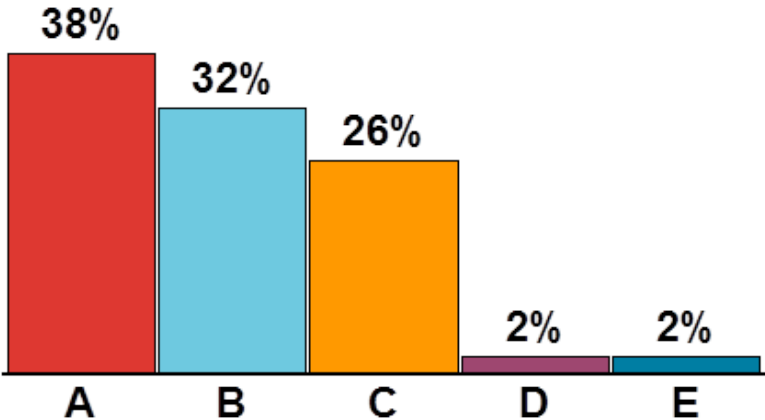
# Where are you with gap analysis?

- A. Partially done and aim to finish before end of 2014
- B. Partially done but struggling to resolve them
- C. Fully done but gaps not resolved
- D. Fully done and all gaps resolved
- E. What gap analysis?

3 June Results



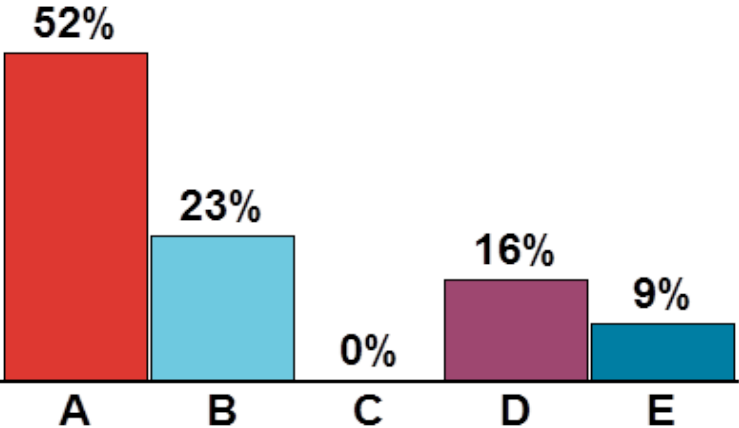
4 June Results



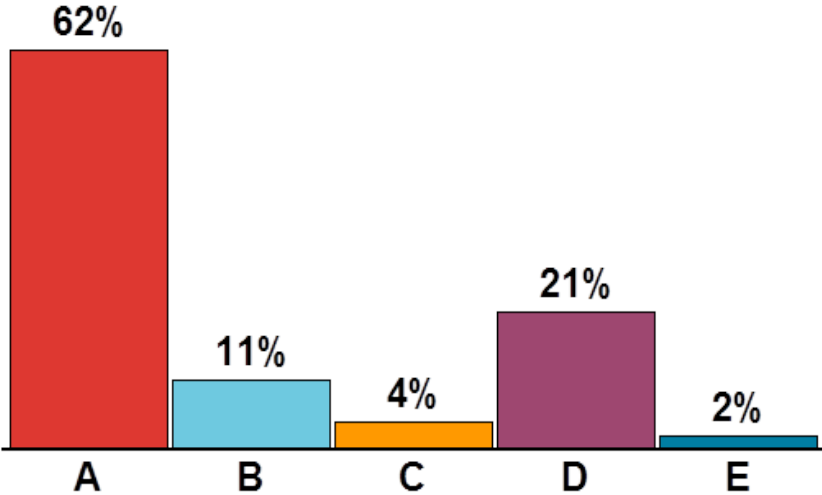
# How are you progressing on your IT solution?

- A. We are yet to determine the IT solution but should be determined by Q4 2014
- B. Already determined the IT solution but no development yet
- C. There is an IT solution in place (fully developed and tested)
- D. IT solution expected to be determined next year
- E. No IT solution required – Excel spreadsheets expected to be used

3 June Results



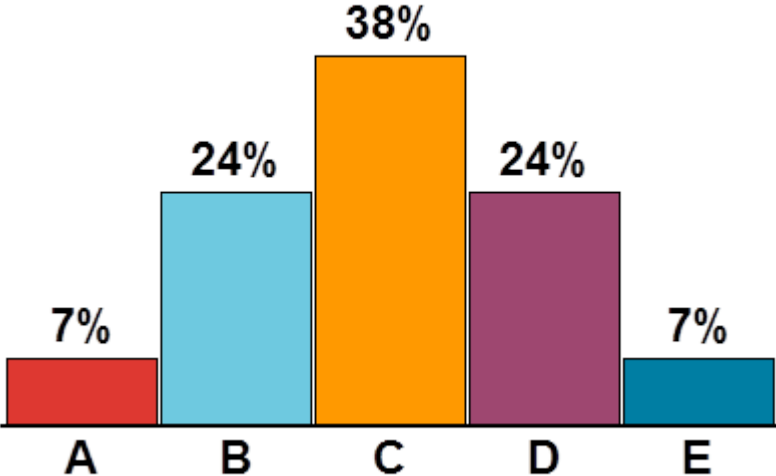
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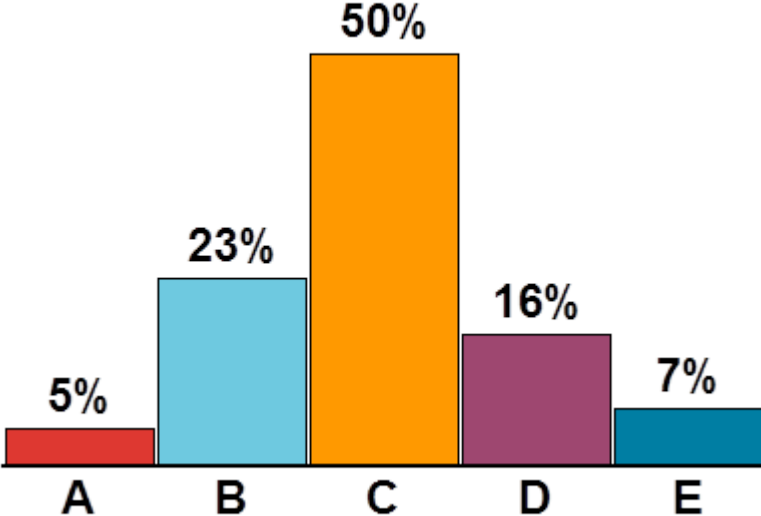
# How are you going to meet the accelerated reporting timelines?

- A. Employ additional staff
- B. Early cut-off will be adopted but with additional staff
- C. Early cut-off and existing staff
- D. Existing staff with no early cut-off
- E. No idea

3 June Results



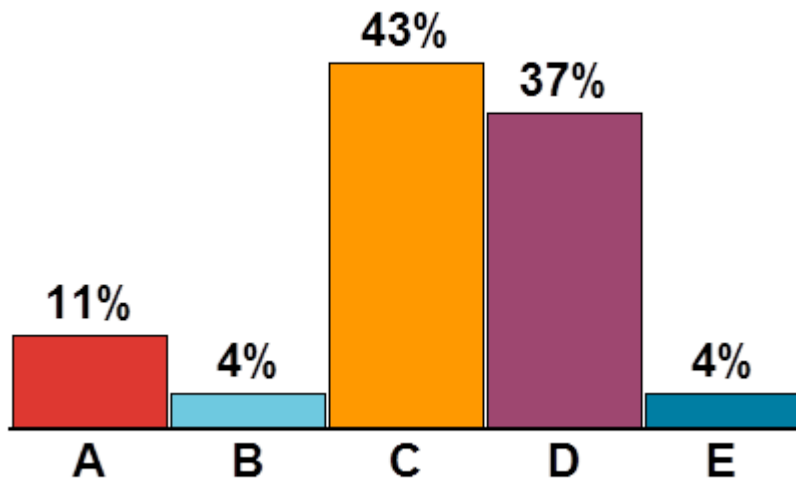
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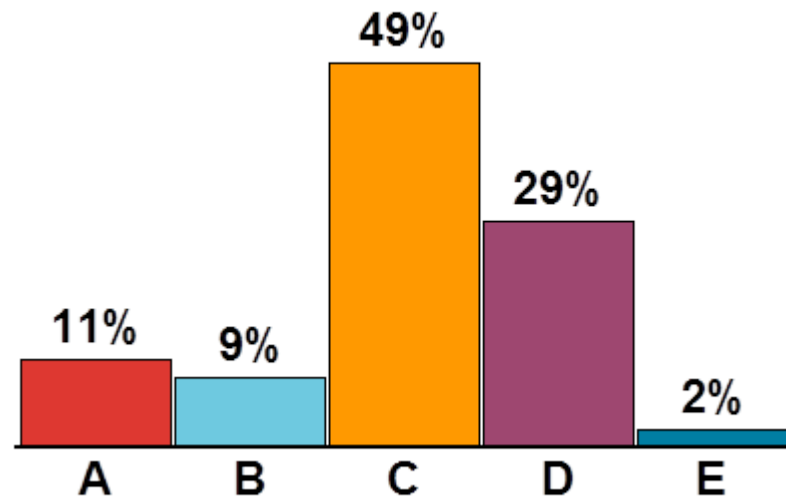
# How are you preparing for the new UK GAAP?

- A. Already assessed the impact
- B. Don't believe there is an impact on our syndicate
- C. Waiting for Lloyd's to give further guidance
- D. Planning to assess the impact next year
- E. What is new UK GAAP?

3 June Results



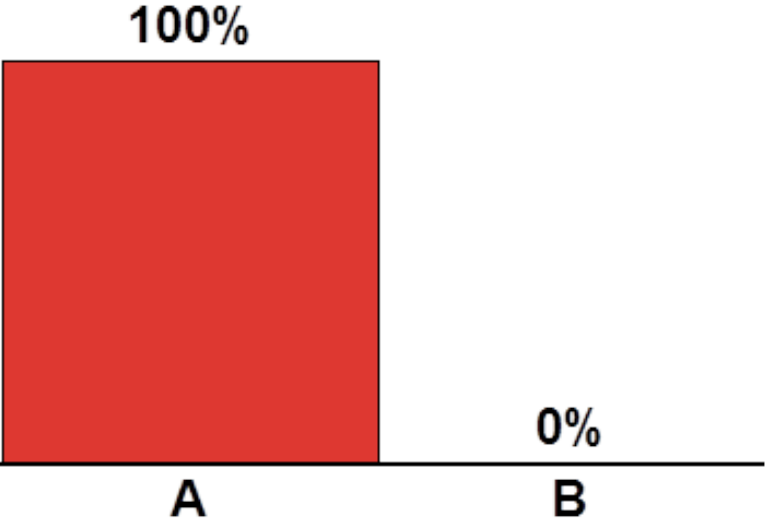
4 June Results



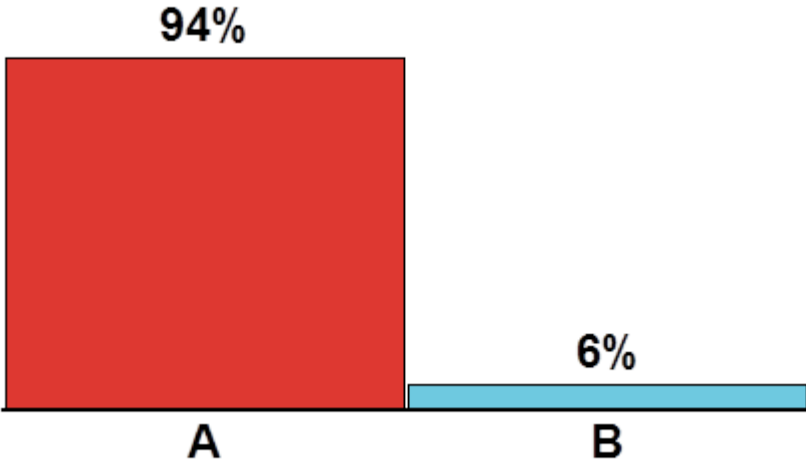
# Would a regular practical 'working group' type forum for agents be of value?

- A. Yes
- B. No

3 June Results



4 June Results



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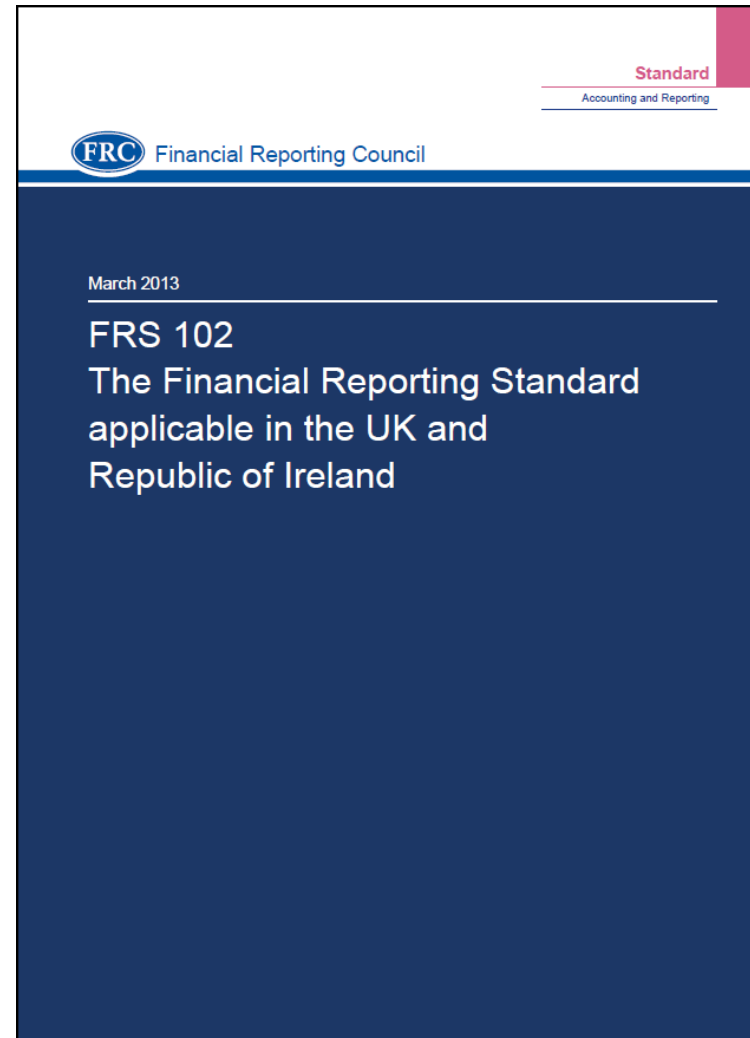
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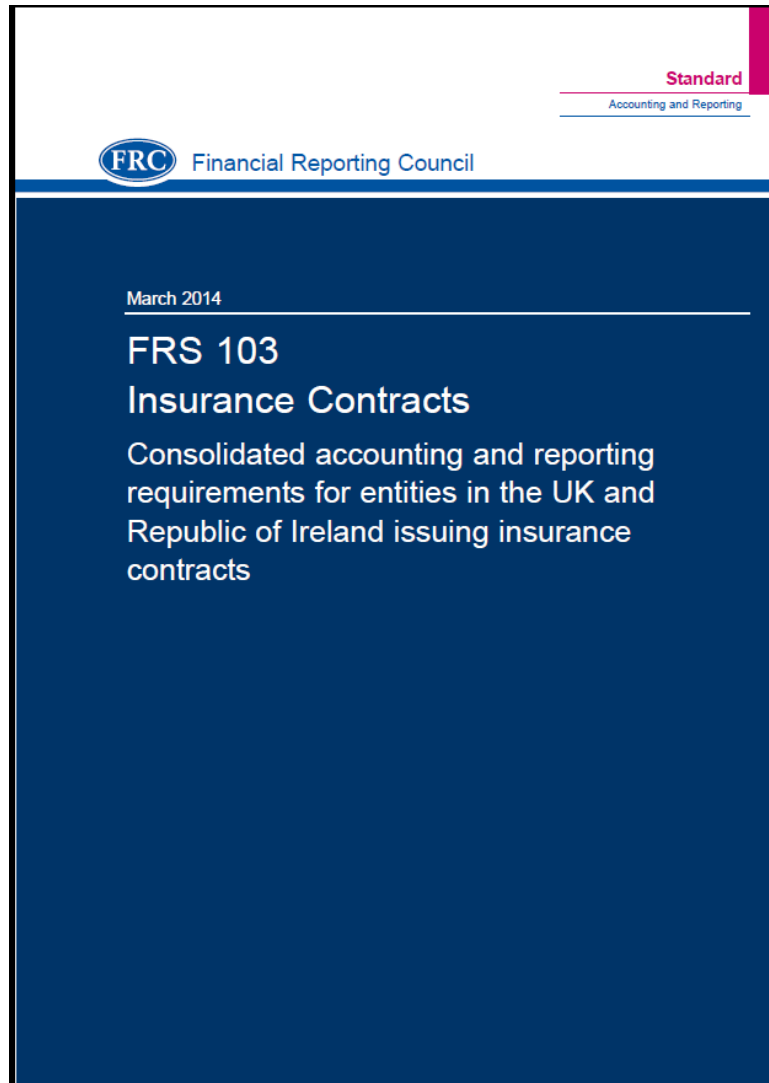
# From 2015, most UK GAAP contained in one standard...

- ▶ FRS102 replaces most UK GAAP at 1 January 2015
- ▶ Based on IFRS for small and medium enterprises (SMEs)
- ▶ Applicable to each Lloyd's syndicate and Lloyd's Aggregate Accounts
- ▶ Comparatives required





# ...with a new additional standard for insurance contracts



- ▶ FRS103 based on:
  - IFRS4
  - ABI SORP
  - FRS27 for life business
- ▶ Applies on same basis as FRS102

# FRS102\* brings in a mandatory approach to accounting for foreign exchange...

- ▶ Functional currency
- ▶ At each reporting period:
  - Translate monetary items at closing rate
  - Translate non-monetary items at historical rates unless valued at fair value
- ▶ Translation to the presentation currency:
  - Assets and liabilities (including comparatives) at closing rate
  - Income and expenses at transactional rate (average rate as a proxy)
  - Exchange differences recognised in other comprehensive income
- ▶ All insurance assets/liabilities treated as monetary items
  - Including UPR and DAC
- ▶ Gains/losses must be reported through P&L
- ▶ 2014 comparatives may require restating

\* For further information refer to FRS 102, chapter 30

## ...as well as additional disclosures on capital...

- ▶ FRS102 paragraph 34.31/32 mandates disclosures in respect of capital for 'financial institutions' including Lloyd's syndicates:
  - Qualitative information about objectives, policies and processes for managing capital
  - Quantitative data about what it manages as capital
  - Compliance with externally imposed capital requirements
- ▶ Should be based on 'information provided internally to key management personnel'

## ...which for syndicates shall be largely generic in nature

- ▶ Requirements are principles based and must reflect:
  - The structure of the entity
  - The supervisory capital regime to which it is subject
  
- ▶ As Lloyd's capital setting is focused on meeting member level and whole market requirements, we expect:
  - Syndicate level disclosures to be generic in nature...
  - ... about Lloyd's capital setting process and how the syndicate SCR fits into this...
  - ...but not the syndicate SCR itself
  
- ▶ Market Bulletin Y4754 issued 20 December 2013 provides illustrative minimum wording
  - But it is the responsibility of the agent to ensure that the requirements of FRS102 are met to auditor satisfaction

# FRS102 also requires additional disclosures on risk and capital based on IFRS7

- ▶ Analysis of risks arising from financial instruments
  - Credit risk
  - Liquidity risk
  - Market risk
- ▶ Financial instruments disclosures
  
- ▶ These are additional disclosures for those syndicates that have not already adopted FRS29

# FRS103\* introduces the claims development triangles requirement from IFRS4...

- ▶ Analysis ultimately required going back 10 years...
  - But with a 5 year minimum as a transitional provision
  - By pure underwriting year
  - At whole account only
  - In respect of net incurred claims including IBNR
  - In the syndicate's presentational (reporting currency), generally GBP
  
- ▶ No information on premiums development required

\*FRS103 paragraph 4.8 (b) (iii)

# ...with reconciliation to the balance sheet\*

## Syndicate XXXX - Claims development as at 31 December 2015

Pure underwriting year	2010 and prior £'000	2011 £'000	2012 £'000	2013 £'000	2014 £'000	2015 £'000	Total £'000
<b>Estimate of net claims incurred:</b>							
After one year		18,000	13,000	11,000	18,000	15,000	
After two years		22,500	12,800	11,100	19,500		
After three years		26,000	12,600	11,000			
After four years		27,500	12,500				
After five years		27,000					
<b>As at 31 December 2015</b>	<b>18,000</b>	<b>27,000</b>	<b>12,500</b>	<b>11,000</b>	<b>19,500</b>	<b>15,000</b>	<b>103,000</b>
<b>Less net claims paid</b>	<b>15,000</b>	<b>25,000</b>	<b>9,500</b>	<b>7,000</b>	<b>13,500</b>	<b>6,000</b>	<b>76,000</b>
<b>Net reserves</b>	<b>3,000</b>	<b>2,000</b>	<b>3,000</b>	<b>4,000</b>	<b>6,000</b>	<b>9,000</b>	<b>27,000</b>
<b>Total all underwriting years</b>							
Net reserves recognised							27,000
Amounts recoverable from reinsurers							33,000
<b>Gross reserves included in the balance sheet</b>							<b>60,000</b>

\* See Market Bulletin Y4754 Appendix C

# How does this affect syndicates?

- ▶ No impact on 2014 syndicate accounts or returns to Lloyd's
  
- ▶ 30 June 2015 QMA must contain restated comparatives impacted by foreign exchange (for Lloyd's interim accounts)
  
- ▶ 31 December 2015 QMA must report:
  - Claims development triangles
  - Restated comparatives impacted by foreign exchange
  
- ▶ 31 December 2015 syndicate accounts must contain:
  - Claims development triangles
  - Additional disclosures on risk and capital
  - Restated comparatives impacted by foreign exchange



# Where can you find out more?

▶ FRC 'Future of UK GAAP' webpages:

<https://www.frc.org.uk/Our-Work/Codes-Standards/Accounting-and-Reporting-Policy/Standards-in-Issue.aspx>

▶ Lloyd's 'Future of UK GAAP' market bulletin December 2013:

<http://www.lloyds.com/~media/files/the%20market/communications/market%20bulletins/2013/12/y4754.pdf>

But:

- Final approach on foreign currency has changed since this was published
- Revised guidance to be issued in Summer 2014

# IFRS 4 Phase II: 17 years and counting

- ▶ Project started in 1997 to harmonise global reporting for insurance contracts
- ▶ IASB issued a discussion paper in 2007...
- ▶ ...a draft standard in 2010 and...
- ▶ ...a revised draft standard in 2013...
- ▶ ...which received 194 responses worldwide
  - Including from Lloyd's



# What next for IFRS 4 Phase II?

- ▶ IASB reviewing responses and redeliberating final requirements during 2014
- ▶ Publication of final standard expected in 2015
- ▶ Will apply 3 years after final standard published
- ▶ So not before 2018
  
- ▶ FRC will consider how to implement into UK GAAP based on proportionality
  
- ▶ More information available from IASB

<http://www.ifrs.org/Current-Projects/IASB-Projects/Insurance-Contracts/Pages/Insurance-Contracts.aspx>

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# Coming up...

Return	Deadline
Draft 2014 SCR via Lloyd's Capital Return (LCR)	3 July
GQD 30 June 2014	10 July
QMA 30 June 2014 (for Lloyd's interim accounts)	21 August
Solvency II balance sheet at 30 June 2014 (QMC)	4 September
Final 2014 SCR	16 September
Pillar 3 dry run submission at 31 December 2013	25 September
GQD 30 September 2014	9 October
LIM asset data as at 30 September 2014 (QAD)	30 October
QMA 31 December 2014 (for Lloyd's accounts)	19 February 2015*
ASR/AAD as at 31 December 2014 (for compliance with EIOPA Guidelines)	16 April 2015*

\* Provisional

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# Summary

- ▶ 2014 is the final year before interim reporting applies
  - Make the most of the dry run to help you prepare
  
- ▶ Agents should:
  - Be reviewing all Pillar 3 requirements
  - Actively participate in UAT
  - If not already doing so, start work on systems ASAP
  - Work through the impact of the new UK GAAP
  
- ▶ Help available from:
  - Lloyds.com Solvency II pages
  - Your account manager
  - [solvency2@lloyds.com](mailto:solvency2@lloyds.com)

# Questions?



