

SOLVENCY II

SUPERVISORY REPORTING & DISCLOSURE WORKSHOP

15 & 16 May 2012

Agenda

- Introduction
- Solvency II balance sheet
- Syndicate reporting templates and guidance
- Reporting Implementation Plan

Table Discussion

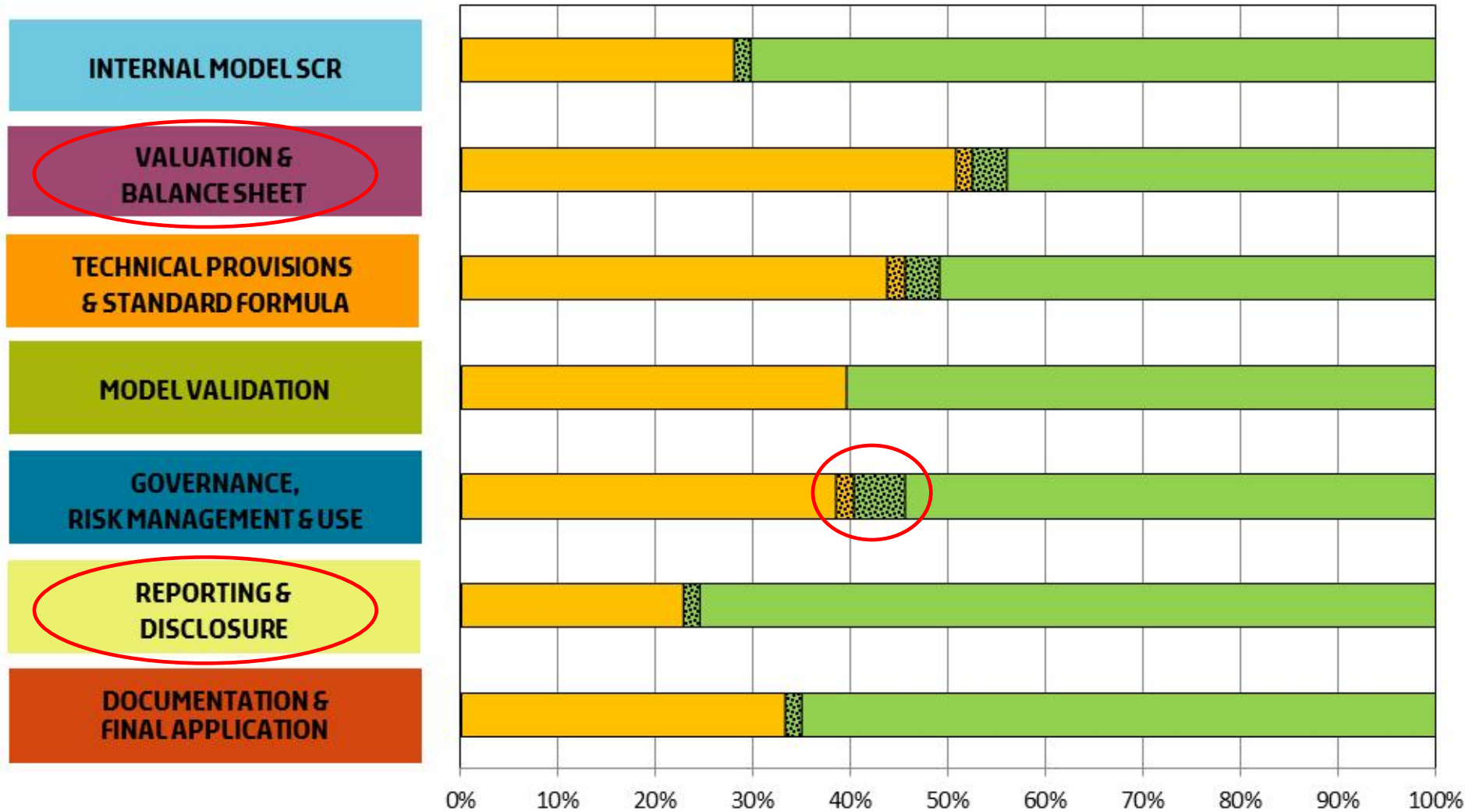
- Pillar III developments
- Development of accounting standards
- Next steps

INTRODUCTION

Updated self assessment scores show steady progress in Q1 2012 ...

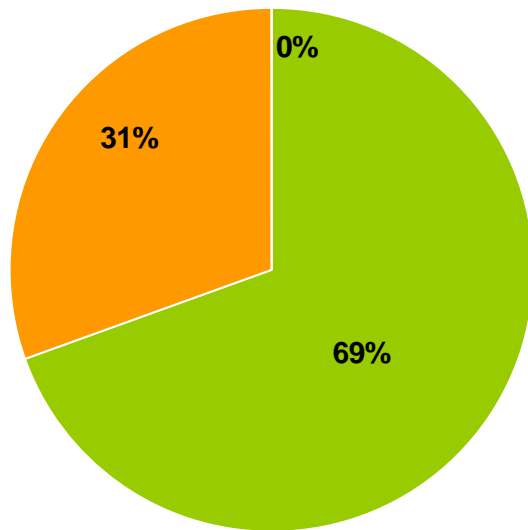


... with Evidence Template feedback being addressed in resubmissions

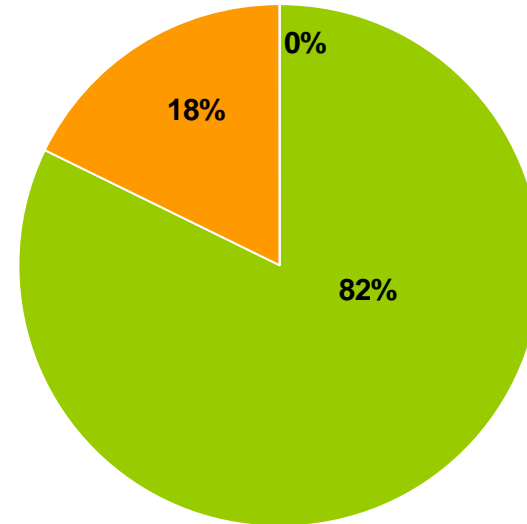


Overall agent ratings remain largely stable pending review of 30 April re-submissions

By agent



By Materiality
(2012 ICA)



Rating

Green

Amber

Red

Summary

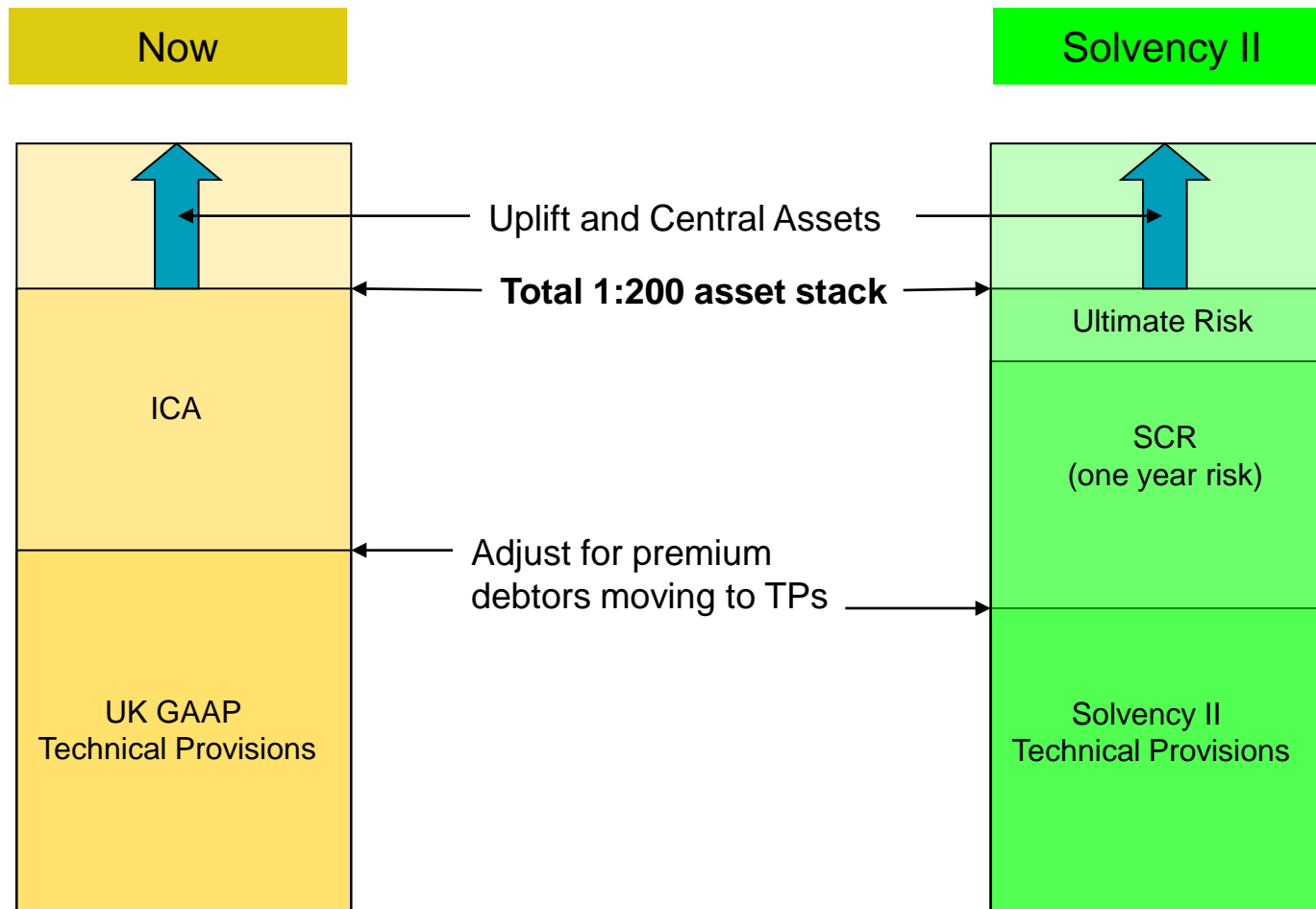
Will meet provided that

Will not meet unless

Will not meet unless with material concerns/FAP rejected

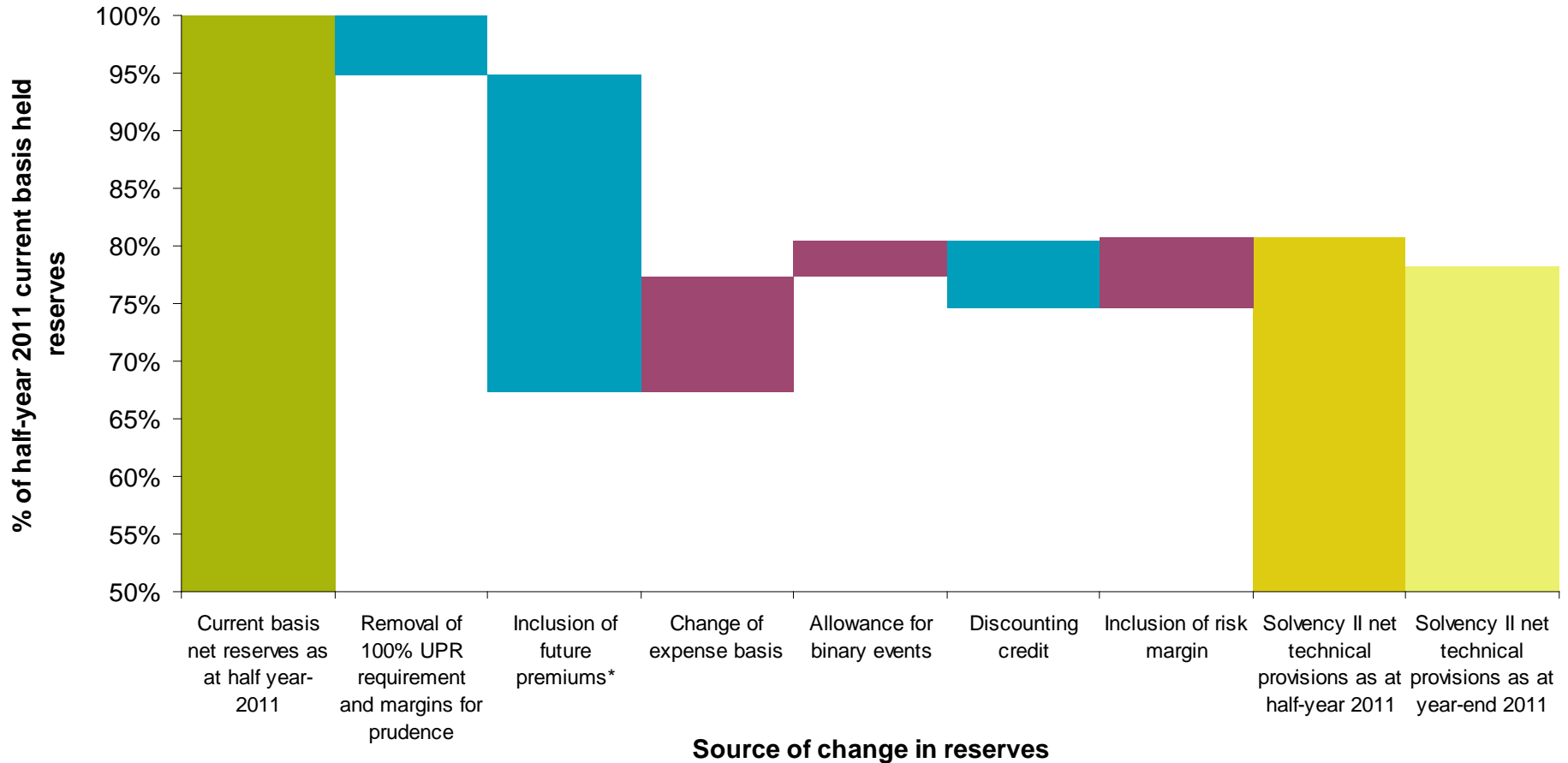
SOLVENCY II BALANCE SHEET

Capital setting in 2013 is stepping stone to Solvency II...



... with the key balance sheet change being technical provisions...

CHANGE IN RESERVES FROM HALF-YEAR 2011 TO PROJECTED YEAR-END 2011



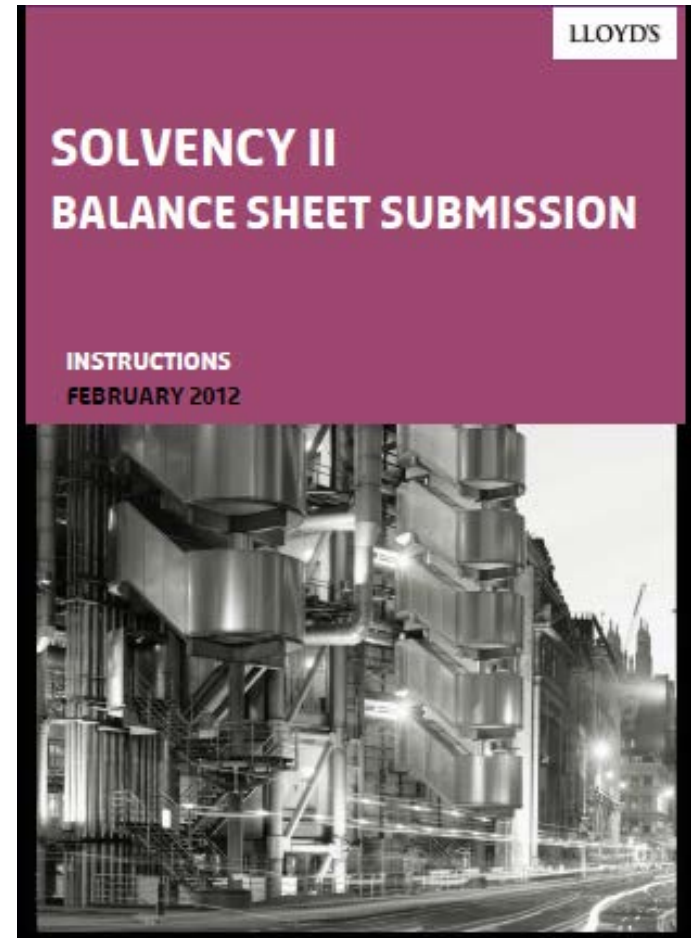
* Includes profit from unaccepted contracts

...and we need a Solvency II 'result' by reporting year of account

Overall Balance Sheet		31 Dec 2011/30 June 2012		
Whole account balance sheet				
Solvency II Balance Sheet line reference	QMA form/cell reference	UK GAAP - per QMA	Adjustments	Solvency II
	A	B	C	D (B+C)
Assets (lines 1 to 32 = line 33)	QMA2 C31			
Liabilities				
Technical provisions (lines 34 to 36 = line 37)				
Other liabilities (lines 38 to 52)				
Total liabilities (37 to 52 = line 53)	QMA2 C52			
Excess of assets over liabilities (Members' balances) (33 + 53 = line 54)	QMA2 C32			
Analysis of Members' balances (Line 54) by Reporting Year of Account				
Solvency II Balance Sheet line reference	QMA form/cell reference	QMA	Adjustments	Solvency II
Reporting year of account (lines 55 to 64)				
2012	QMA360 A5			
2011	QMA360 A5			
2010	QMA360 A5			
2009/RO (each year separately)	QMA360 A5			
Total (55 to 64 = line 65)	QMA205 A11			
Total due from members (line 66)	QMA215 A11			
Funds in syndicate (FIS) (line 67)	QMA202 A59			
Total (65+66+67 = line 68)	QMA002 C32			

Deadlines for submission

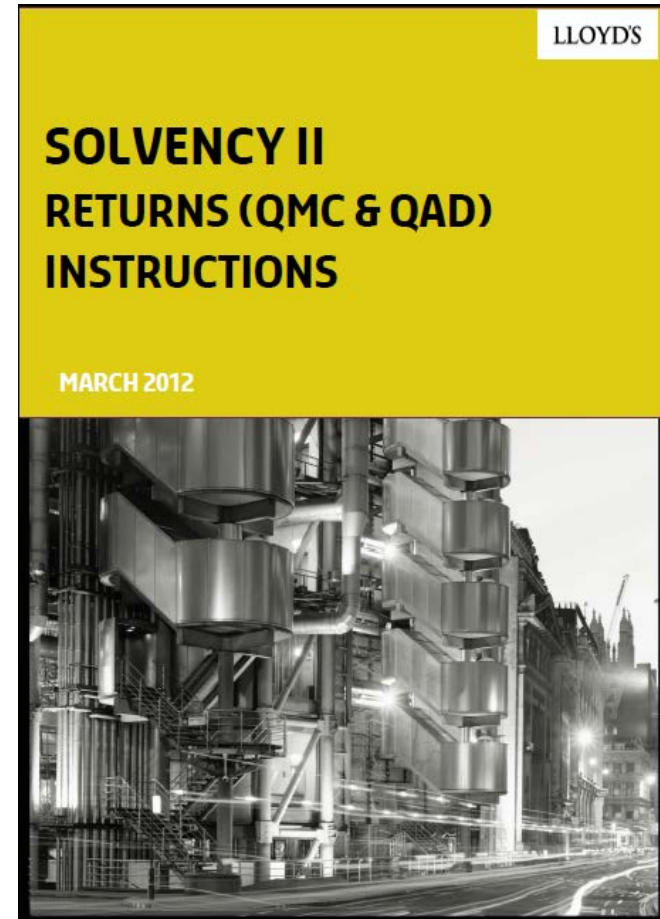
- **31 December 2011**
 - By 29 June 2012
 - Unaudited
- **30 June 2012**
 - By 13 September 2012
 - With review opinion
- **31 Dec 2012**
 - 2 weeks after QMA?
 - With 'properly prepared' opinion
- Managing agent sign-off required in each case
- No additional actuarial opinion – still on Solvency I basis



SYNDICATE REPORTING TEMPLATES & GUIDANCE

Syndicate Solvency II returns will be...

- Synchronous
 - Quarterly Solvency Return (QSR)
 - Annual Solvency Return (ASR)
- Asynchronous
 - Quarterly Asset Data (QAD)
 - Annual Asset Data (AAD)



...integrated into the Core Market Return system

Solvency II returns: key areas (1)

- Balance sheet – Annual v Quarterly
- Assets
 - Pillar III v LIM
 - Reporting of FIS assets
 - Look-through approach – investments/money market funds (QAD 236)
- Variation analysis forms (C2A – C2D)
 - Provides information on changes in own funds
 - Reported from the second year of Solvency II (as at 31 Dec 2015)

Solvency II returns: key areas (2)

- Technical provisions
 - Claims triangle – historical data
 - Claims paid (gross of salvage and subrogation) (QMC 243)
 - Gross best estimate (undiscounted) (QMC 244)
 - Gross reported but not settled claims (RBNS) (QMC 245)
- Salvage and subrogation
 - Split of cash out-flows and in-flows (including salvage and subrogation) (QMC 240)
 - Claims paid and RBNS claims triangles (QMC 243& 245)
 - Gross claims paid (QMC 430, 440, 441, 442 & 443)

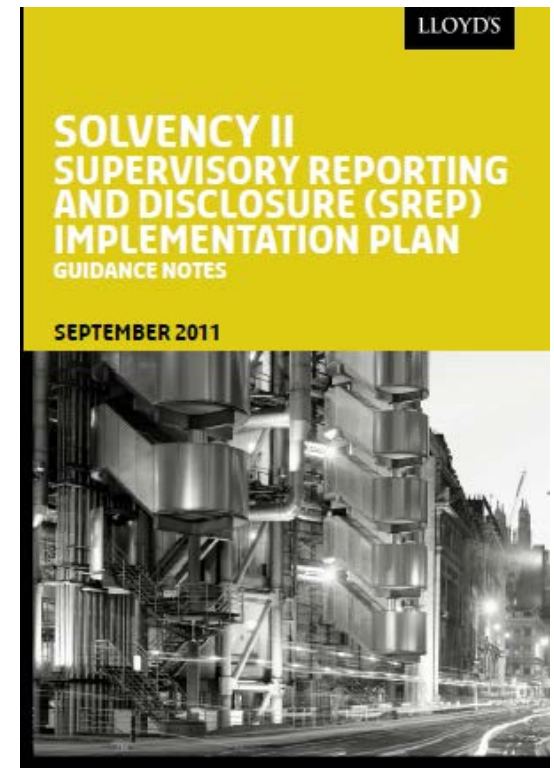
Solvency II returns: key areas (3)

- Binder business
 - Number of claims (QMC 248)
 - Loss distribution details (QMC 248)
 - Individual policy limits (sum insured) (QMC 250)

REPORTING IMPLEMENTATION PLAN

SREP implementation plans must...

- Be a stand alone document
- Be consistent with evidence template and FAP
- Provide details of the current status of the four dry run elements
- Disclose details of completed areas
- Identify outstanding work and what needs to be done to address it
- Set out when this work is expected to be completed
- Include a contingency plan



Deadline for submission to Lloyd's 29 June 2012

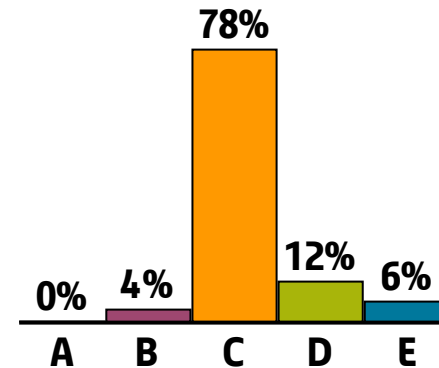
...bearing in mind key themes from our SREP evidence templates review

- Reporting systems – details not provided on what systems have been reviewed/assessed
- Findings from the reporting systems review not included
- Reporting process not adequately covered
- Gap analysis on quantitative reporting requirements not performed or key findings not highlighted
- Gap analysis on qualitative reporting requirements not performed

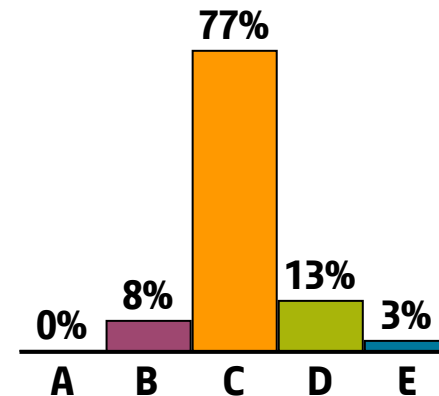
What is the status of your Implementation Plan?

- A. Completed, reviewed and signed off
- B. Completed, waiting to be reviewed and signed off
- C. In progress and will be ready by 29 June
- D. In progress, but will struggle to be ready by 29 June
- E. Not started

15 MAY RESULTS



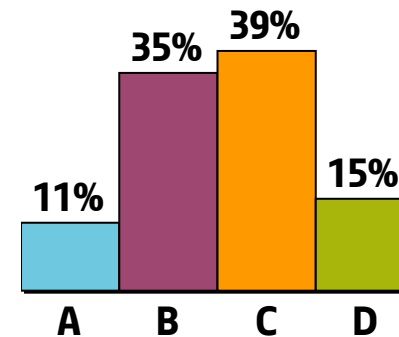
16 MAY RESULTS



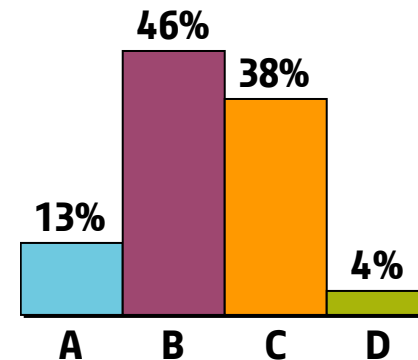
Have you started making changes to your reporting systems?

- A. Yes and good progress has been made
- B. Yes but only just started and there is still a lot to do!
- C. No – we know what we need to do but haven't started yet
- D. We have not yet assessed what we need to do

15 MAY RESULTS



16 MAY RESULTS



Have you started having discussions with the investment managers?

- A. Yes, at a high level
- B. Yes, at a detailed level
- C. No, will involve them once Pillar 3 requirements are finalised
- D. We already have the required data – no further action

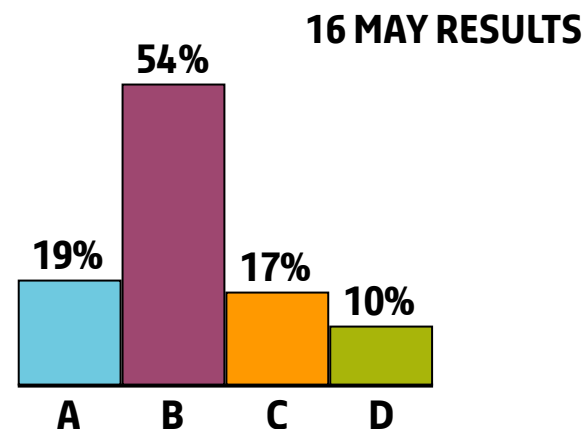
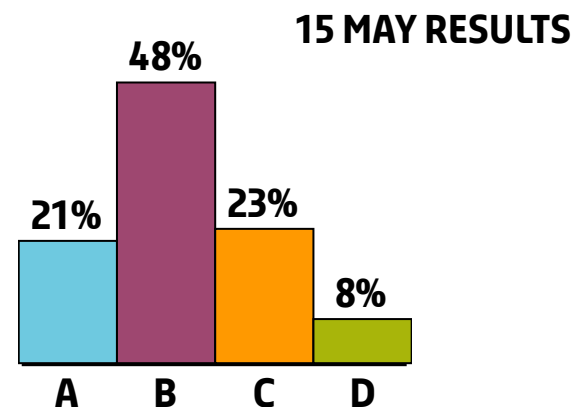


TABLE DISCUSSION

KEY ISSUES IN MEETING REPORTING REQUIREMENTS

Suggested discussion topics

- What material gaps have you identified in your implementation plan?
- Reporting forms
 - What are the key issues re meeting the reporting requirements?
 - Are there things that Lloyd's can do to help in meeting the requirements?
 - What are the forms that will be most difficult to complete?
- What other areas of concern do you have in meeting the reporting requirements?

PILLAR 3 NEXT STEPS

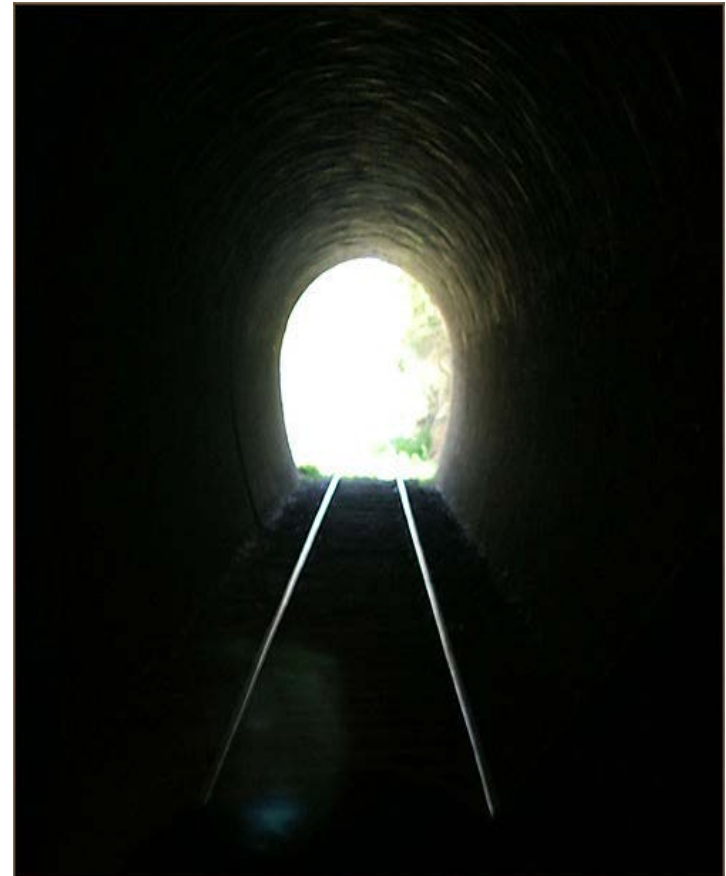
Pillar 3 requirements much clearer now...

Available now:

- EIOPA consultation Nov 2011:
- Lloyd's:
 - Qualitative guidance Dec 2011
 - Forms and instructions March 2012

To come:

- Omnibus II (Sept 2012)
- EIOPA final forms (late 2012)
- National specific reporting (2012/2013)
- Audit (EIOPA or FSA to decide?)



...although things can still change!

Step by step build up to full reporting

- 31 December 2012 - Reporting on 'best efforts' basis (Balance sheet, own funds, SCR, MCR)
 - Lloyd's will use Q2 2013 'dry run' for this
 - Submit to supervisor end Q2 2013
- 31 December 2013 - Version of RSR
 - Content and extent unclear
- Opening balance sheet at 1 January 2014
- 31 March 2014 – Quarterly reporting (QRTs)
- 31 December 2014 – Annual reporting (RSR/SFCR/QRTs)

DEVELOPMENT OF ACCOUNTING STANDARDS

ASB consultation Spring 2012: Future of UK GAAP

- Incorporation of IFRS for SMEs into UK GAAP (FRS 102)
- Exemption for IFRS7 and IFRS13 disclosures (but not financial institutions)
- Short term options
 - Maintain ABI SORP
 - Adopt current IFRS4
 - Adopt Solvency II
 - Adopt IFRS4 Phase II as it stands
- Long term plan - Adopt IFRS4 Phase II (once endorsed by EU)
- Proposed implementation date 1 January 2015

IFRS Agenda

- The discussion: Consider IFRS-proofing your Solvency II investment
- The context of IFRS Insurance and Solvency II: alignment of timelines
 - Final IFRS for insurance expected in Q3/Q4 2013 for implementation 1 January 2016 – Much has already been decided
 - Current UK GAAP expected to end 2015
 - US GAAP is also expected to adopt a similar approach to insurance accounting
- IFRS for insurance and Solvency II reporting are “the same but different”
- Facing the challenge of the adoption of Solvency II and IFRS Insurance – a possible approach
 - Identify the Fatal Flaws: alignment of technology against the valuation differences
 - Identify the Target Operating Model for 2016: alignment to a single integrated operating model
 - Avoid “digging up the road twice”

The IFRS Landscape

Key legend

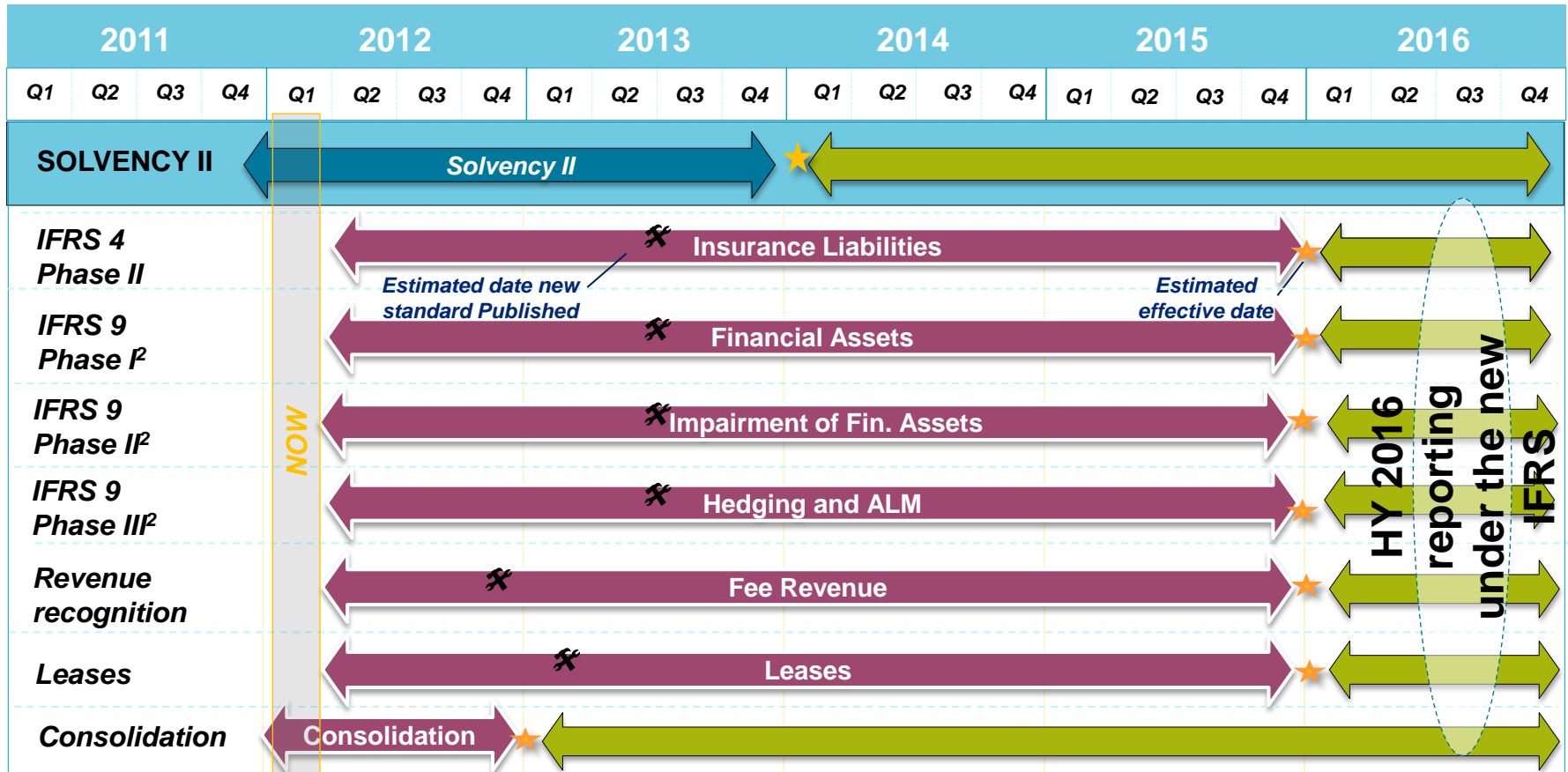
 : Estimated publication of new standard

 : Implementation period

 : Estimated effective date

 : BAU

A structured approach is needed to tackle the degree of challenge over this extended timeline



Note: 1. IFRS timelines presented have not been confirmed by IASB.

2. IFRS 9 Phase I – classification and measurement, IFRS 9 Phase II – amortised cost and impairment of financial assets, IFRS 9 Phase III – hedge accounting

IFRS 4 Phase II – Key concepts

Measurement mode

Measurement objective and approach

- Current assessment of insurer's rights and obligations under contract – single amount on financial statements representing the net contract fulfilment value.
- Use of a transparent “building block” approach, with a simplified approach required only for short-duration contracts pre-claim liabilities.
- There are three building blocks to the measurement approach:

Block 1	Block 2	Block 3
Estimate of fulfilment cash flows	Discounting of fulfilment cash flows	Two components: a) Risk adjustment b) Residual margin

FASB / IASB Difference

- Alternative model for block 3 is a single composite margin
- No explicit measurement of uncertainty → capture risk together with future profit at inception based on policy price

IFRS 4 Phase II alignment with Solvency II

Key challenges

Goal of SII

To establish a single common regulatory framework to maintain capital adequacy and risk management standards

Goal of IFRS

To improve transparency and comparability of insurers' financial statements, regardless of sector, geography or products.

Key Feature	Nature of challenge	Key Areas of Impact
Residual Margin	Residual margin does not exist within Solvency II	Data and actuarial systems
Portfolio vs Entity	IFRS portfolio reporting level may require different data segmentation within core systems	Data and systems / Assumptions / Inputs to ICM
Risk Margin	Techniques other than Cost of Capital can be used for IFRS	Data and actuarial systems / Assumptions
Discount Rate	There is more freedom of approach to discounting in IFRS than Solvency II	Assumptions
Best Estimate cashflows	Interpretation may be different for certain components of the best estimate cash flows e.g. expenses, contract boundaries and scope of contracts	Actuarial Assumptions / Methodology
Reconciliation and P&L	P&L attribution process needs to be developed Balance sheet reconciliation between IFRS and SII	Data and systems / Methodology
Tax	Tax implications need to be fully understood	Assumptions / Methodology

Target Operating Model

Maximising the capability across Actuarial / Technology / Accounting

Work needed now to secure final success

Identify the Fatal Flaws: alignment of technology against the valuation differences

Programme Governance at Macro Portfolio Level

- Need focused projects with robust dependency management to avoid digging up the road twice
- Organisations fear the risk of creating huge monster programmes which they cannot control and become unwieldy with escalating costs which are also difficult to control

Key components to consider from current Solvency II work

- Technology – search for ‘fatal flaws’ – identify where the current technology is not sufficient to perform mandatory requirements of IFRS Insurance
- Optimisation of project resource: create effective detailed resource plans through to post implementation.

Identification of a combined critical path – to identify and rectify fatal flaws and secure final success in the combined implementation

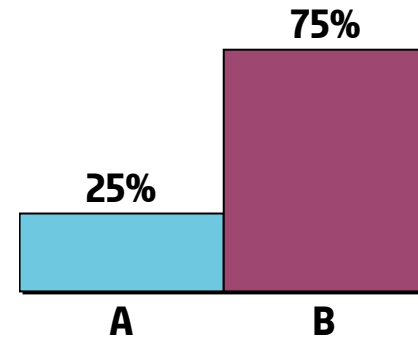
- Need to take a holistic view of the programme and identify activity to remediate any ‘Fatal Flaws’
- Overlay the touch points for IFRS on the critical path for SII - determine the point of no return
- Consider the opportunity of the operational phasing of a Finance Transformation critical path distinguishing what is essential against what is “nice to have”

Have you considered the potential impact of IFRS 4 Phase II in your Pillar 3 work?

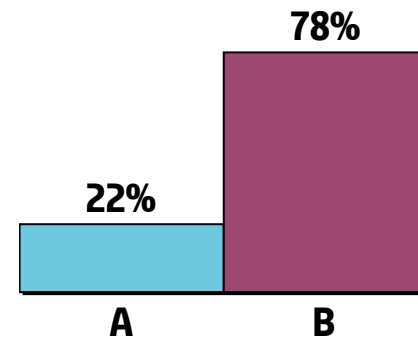
A. Yes

B. No

15 MAY RESULTS



16 MAY RESULTS



QUESTIONS?

NEXT STEPS

What happens next?

- Slides will be made available on lloyds.com after both workshops
- Implementation plan due on 29 June
 - Feedback from Lloyd's by end September
- Balance Sheet as at 31 December 2011 due on 29 June
 - Template available on lloyds.com
- Other upcoming sessions
 - Model Validation – 12 & 13 June
 - Governance Risk Management & Use – 2 & 3 July
 - Further SREP workshops – 13 & 14 November
 - Will focus on Pillar 3 dry run for Q2 2013

