



# **SUPERVISORY REPORTING AND DISCLOSURE WORKSHOPS**

**24 & 28 NOVEMBER 2014**

# AGENDA

- ▶ **Introduction**
- ▶ **Guidance on use of CMR (ASR and AAD)**
- ▶ **Pillar 3 dry run – Feedback**
- ▶ **Preparing for interim reporting – 31 December 2014**
- ▶ **Road to full Solvency II reporting for 2016**

## Table discussion

- ▶ **Accounting update – New UK GAAP**
- ▶ **Wrapping up**

# Pillar 3 is really here now...

Timing	Activity	Action by	Board action
Dec 2014	Issue instructions for interim reporting at 31.12.2014 and 30.09.2015	Lloyd's	-
April 2015	Submit 31.12.2014 interim reporting returns	Agents	Approval
Q3 2015	Possible dry run of some/all remaining templates	Agents	Awareness
Q3 2015	Lloyd's issues final Pillar 3 requirements for full Solvency II reporting	Lloyd's	-
Nov 2015	Submit 30.09.2015 interim reporting returns	Agents	Approval
March 2016	Submit opening position Pillar 3 returns - Solvency II balance sheet, own funds, SCR and MCR	Agents	Approval
May 2016	Submit first full Pillar 3 quarterly return at 31.03.2016	Agents	Approval
April 2017	Submit first full Pillar 3 annual return at 31.12.2016	Agents	Approval

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# Feedback on use of Core Market Return (CMR)

- ▶ Access to CMR
  - Devolved administrators
  - Lloyd's ITG
- ▶ Contact details
  - Please update contact details in CMR
- ▶ Instructions/FAQs
- ▶ Off-line validator
  - Used for asynchronous returns - AAD and QAD
  - Should be used initially to avoid files rejection
  - Checks each form at a time

# CRM - Tips and tricks

## ▶ File upload failures

- Header return – starts with “HR”
- Invalid return – starts with “IR”
- Format errors – starts with “FR”
- Referential integrity – starts with “RI”
- Business rules – starts with “BR”

## ▶ Cross form validations

- Clear all the format type validations (HR/IR/FR/RI) before BR validations

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## Dry run completed to a good standard...

- ✓ Most queries were raised early
- ✓ All returns were submitted on time
- ✓ No significant issues noted
- ✓ In most cases right questions were asked
- ✗ New staff not familiar with Pillar 3 returns (especially AAD)
- ✗ Staff not referring to instructions and/or FAQs
- ✗ Syndicates requesting help with sign-off very late
- ✗ Syndicates not using off-line validator

...but there were a number of issues identified...



## ...relating to new areas to be reported...

- ▶ Completion of ASR220 – SCR, MCR, foreseeable distribution and EPIFP
- ▶ Allocation of Gross best estimate (direct business) to countries
  - We have requested some syndicates to provide info on the make-up of countries under other EEA and other non-EEA
- ▶ Completion of ASR522
  - Gross and net SCR
  - Reconciliation with LCR
  - Capital loadings
- ▶ Reporting in new fields: total par amount and percentage of par Solvency II value
- ▶ Reporting of issuer/issuer group and counterparty/counterparty group codes

## ...as well as reconciliation between templates

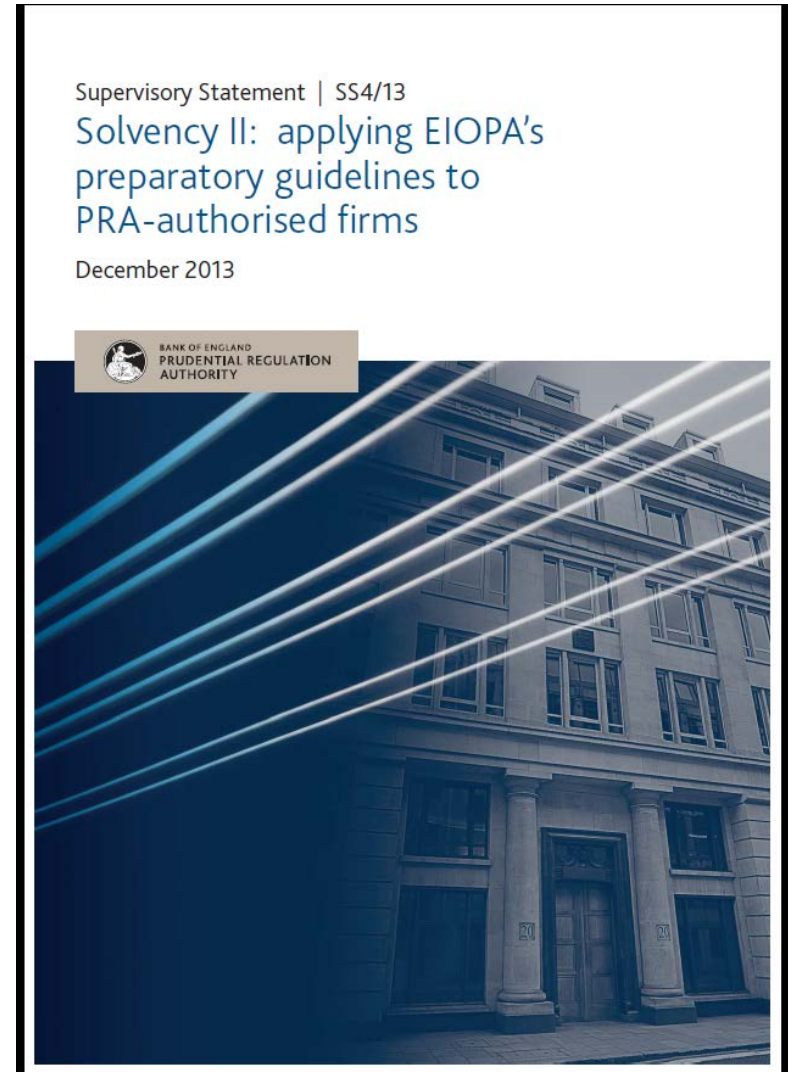
- ▶ Comparison between
  - QMC and ASR002
  - ASR002 and AAD230/233 (230s)
  - QAD and AAD
  - Net cash-flows (ASR 241, 280 and 283) vs Gross best estimate (ASR 240, 280 and 283)
  - Net written premiums (QMA 001 vs ASR510)

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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



# 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
  - Deadline for submission **Thursday 16 April 2015**

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

# Most of the interim reporting quantitative data...

Template	ASR/AAD 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

...already collected by Lloyd's as BAU

# Interim qualitative reporting requirements can mainly be met by existing material

Guideline <sup>1</sup>	Description	Workstream <sup>2</sup>	How will this information be sourced?
21	General governance	GRMU	Material already prepared and maintained by agents to achieve compliance with Lloyd's 'Governance, Risk Management and Use' workstream' eg: <ul style="list-style-type: none"> <li>• Risk management framework and policy</li> <li>• Individual risk category policies</li> <li>• Internal control policy</li> <li>• Fit and proper policy</li> <li>• Recruitment policies</li> <li>• Organisational chart</li> <li>• Board/Committee terms of reference</li> </ul>
22	Fit and proper	GRMU	
23	Risk management	GRMU	
24	Internal control	GRMU	
25	Governance – other information	GRMU	
27	Governance structure	GRMU	
28	Own funds	VBS	Short narrative explanation explaining movement in members' balances
29	Valuation of assets	VBS	From 'Solvency II valuation procedures' document
30	Valuation of technical provisions	TP	Description of approaches used eg Chainladder, Bornhuetter Ferguson, risk margin, binary events (ENIDs) – from existing TP procedures
31	Valuation of other liabilities	VBS	From 'Solvency II valuation procedures' document
32	Valuation – other information	VBS	Unlikely to be applicable

1) EIOPA Guidelines on Submission of Information to National Competent Authorities (13/010) pages 15 to 19

2) Lloyd's workstreams: GRMU Governance Risk Management and Use; VBS Valuation and Balance Sheet; TP Technical Provisions. See lloyds.com

## 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
  - Existing documents may be referred to in summary but must be attached and...
  - ...must be updated to reflect position as at 31 December 2014
- ▶ Lloyd's issued draft guidance – feedback requested
  - Which will be reflected in instructions for interim return

...covering the specified areas



# Lloyd's guidance on interim reporting builds on the dry run...

- ▶ Lloyd's has given individual feedback on the dry run submissions
- ▶ AAD/ASR UAT will be available from 25 November – feedback by 2 December
  - Minor changes to validations
- ▶ Instructions to be updated and issued in December
- ▶ AAD/ASR available in production in January 2015
- ▶ FAQs to be updated regularly and uploaded in CMR

...and Lloyd's will continue addressing any queries from the market

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# Are the Pillar 3 requirements final now?

- ▶ EIOPA's view is that they are 'near final'
  - Final consultation expected December 2014...
  - ...But reasonable for agents to prepare based on requirements already published
- ▶ Remaining uncertainties:
  - Reinsurance data
  - Variation analysis (can only apply from 2<sup>nd</sup> full year of Solvency II)

# 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):
  - New return – Syndicate Reinsurance Structure (SRS)
  - Initial communication to market in Q1 2015
  - Expected to be completed in Q2 2015
  - Dry run planned for Q3 and Q4 2015
  - Use SRS in BAU from 1 January 2016
- ▶ Any final changes arising through Level 3 measures shall be reflected in specifications and instructions
- ▶ Final instructions and live CMR systems for full Solvency II reporting expected to be available by end Q3 2015

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## Table discussion

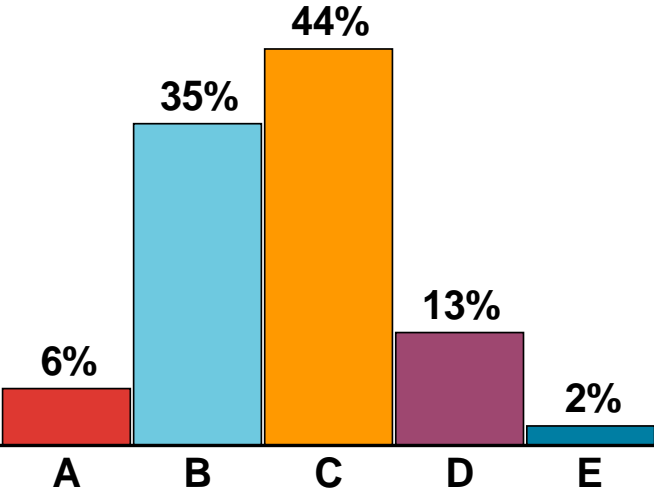
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# Suggested discussion topics

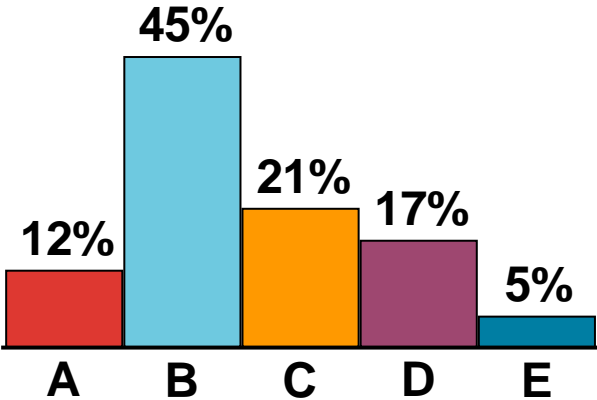
- ▶ Key issues encountered during dry run
  - Planned solutions
  - Areas where Lloyd's can help
- ▶ Readiness for full Solvency II reporting
  - Data sources – accuracy and completeness
  - Implementation of IT solution
  - Resources
  - More market wide dry running
- ▶ Scope for full Pillar 3 dry run planned for Q3 2015
- ▶ Impact of new UK GAAP
- ▶ Anything else?

# How has your gap analysis progressed?

- A. Fully done and all gaps resolved
- B. Fully done but gaps not resolved
- C. Partially done and aim to finish before end of 2014
- D. Partially done but struggling to resolve them before 2015
- E. What gap analysis?



24 November Results

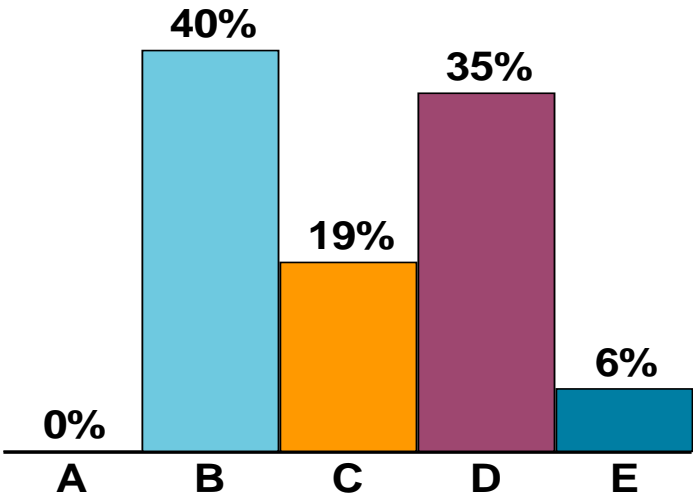


28 November Results

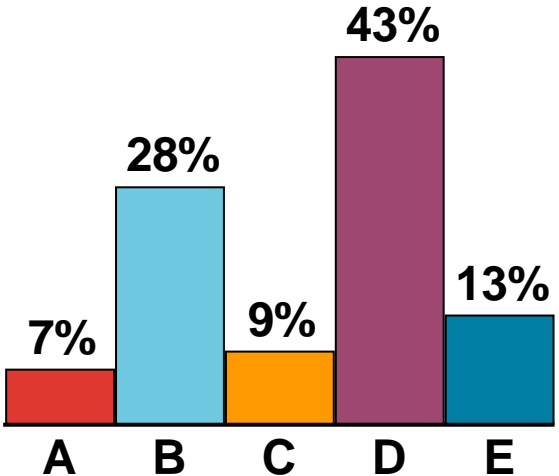


# Are your IT arrangements in place?

- A. There is an IT solution in place (fully developed and tested)
- B. Already determined the IT solution but not implemented yet
- C. We are yet to determine the IT solution but will do so by end of 2014
- D. IT solution expected to be determined next year
- E. No IT solution required – Excel spreadsheets expected to be used



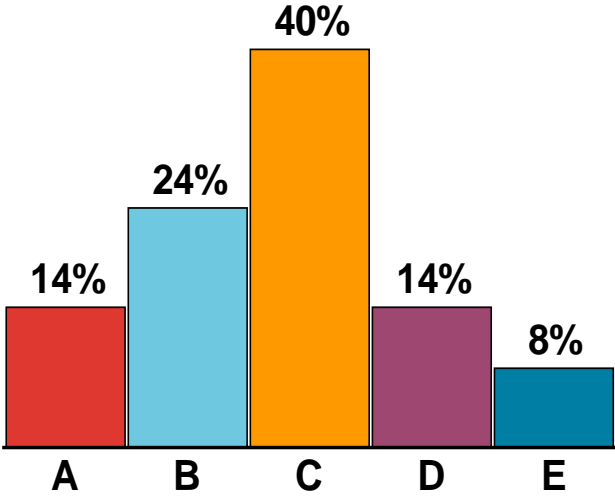
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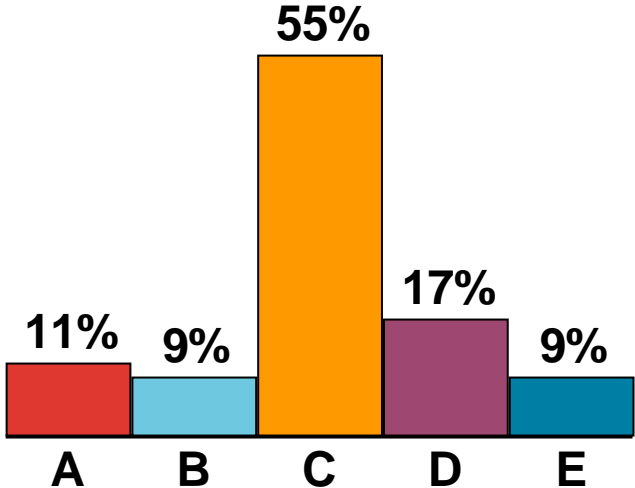
28 November Results

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

- A. Employ additional staff
- B. Early cut-off will be adopted
- C. Early cut-off and existing staff
- D. We don't need more staff or early cut-off
- E. No idea



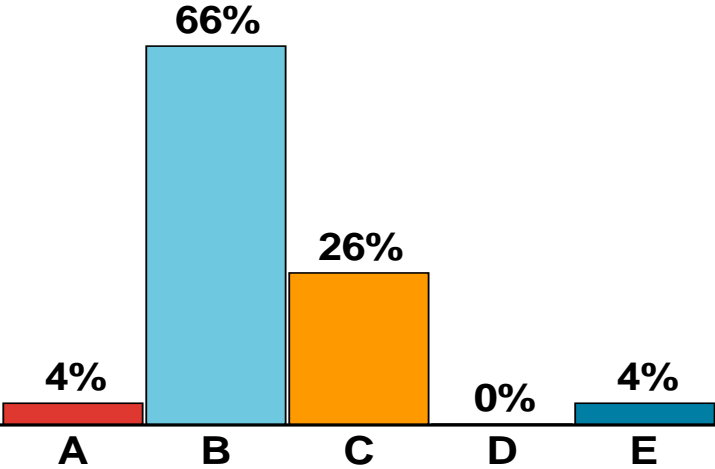
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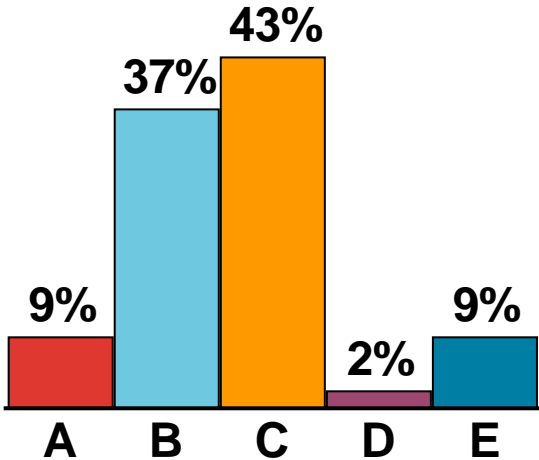
28 November Results

# How do you rate your Finance function's Pillar 3 reporting team's knowledge?

- A. All are Pillar 3 experts
- B. Have adequate knowledge and only require minimum training
- C. Have minimum knowledge and require extensive training
- D. There is no Pillar 3 reporting team and plans to recruit staff are underway
- E. No idea



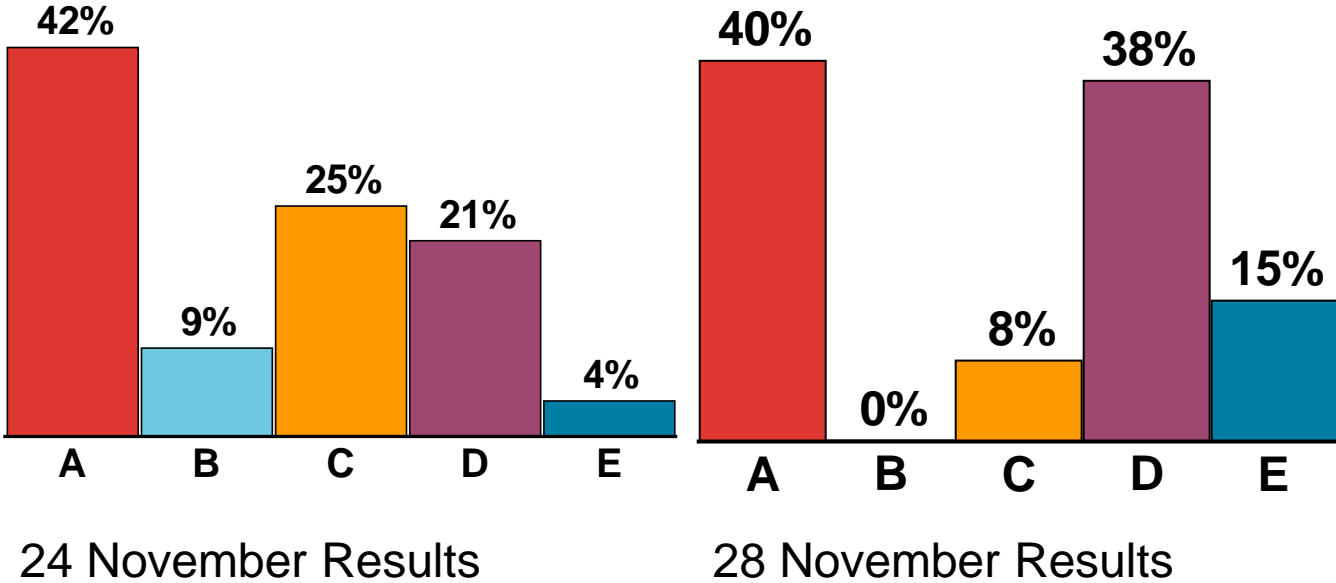
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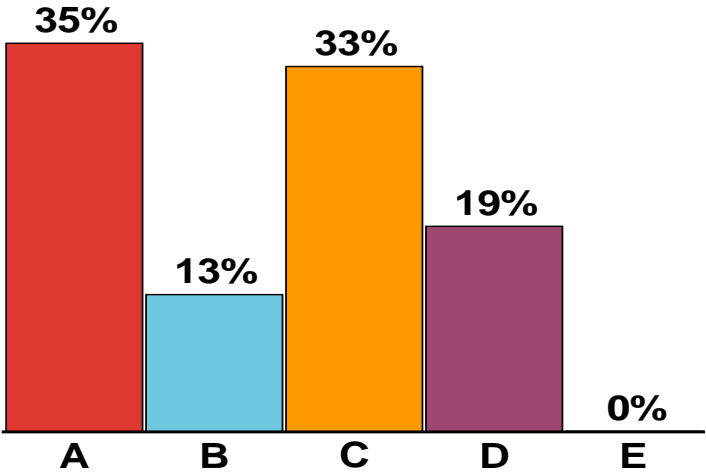
# Should Lloyd's conduct a further dry run next year?

- A. Yes – for all the annual forms (AAD and ASR)
- B. Yes – for all AAD and only forms in ASR not covered in this year's dry run
- C. Yes – for all ASR and only forms in AAD not covered in this year's dry run
- D. Yes – only for all the forms not covered in this year's dry run
- E. No thanks – we have got enough to do

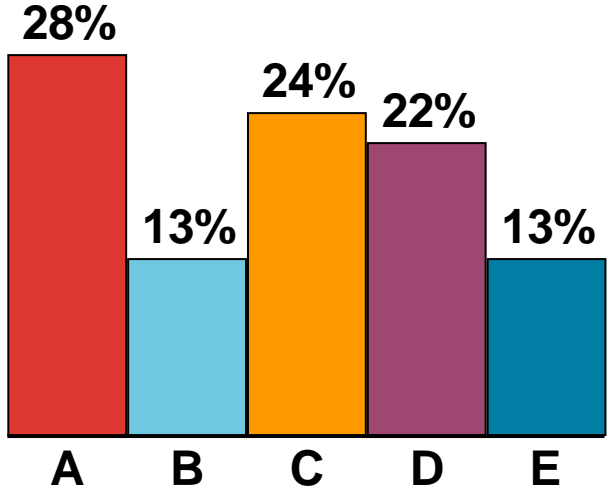


# How are you preparing for the new UK GAAP?

- 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?



24 November Results



28 November Results

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# Forthcoming changes to accounting requirements will affect syndicates and Lloyd's

- ▶ Changes to UK GAAP
  - FRS102 'Financial Reporting Standard in UK and Republic of Ireland'
  - FRS103 'Insurance Contracts'
  - Applicable from 1 January 2015 (comparatives for 2014)
  
- ▶ Impact on
  - QMA
  - Syndicate annual reports
  - Lloyd's Aggregate Accounts
  - Lloyd's Market Results

# FRS102 broadly the same as today's UK GAAP...

- ▶ Streamlining and consolidation of existing set of UK GAAP
- ▶ A few modifications based on IFRS for small and medium enterprises
- ▶ One key impact on translation of foreign currency
  - Strict rules on treatment of gains/losses
  - May affect result and thus tax position for capital providers
  - 2014 comparatives may be affected

...but with a key change in FX accounting



# 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)

# 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
  - Financial instruments disclosures
  
- ▶ 31 December 2015 syndicate accounts must contain:
  - Claims development triangles
  - Additional disclosures on risk and capital
  - Restated comparatives impacted by foreign exchange
  - Financial instruments disclosures

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# Coming up later this year...

Workshop/submission	Deadline
2015 Planning workshops	9 & 10 December
Board confirmation on Solvency II status	12 December

## ...and provisional key deadlines in 2015

Return	Deadline
QMA 31 December 2014 (for Lloyd's accounts)	19 February
Solvency II balance sheet (QMC) at 31 December 2014	05 March
Final 2015 SCR	05 March
TPD 31 December 2014	02 April
ASR/AAD 31 December 2014 (for compliance with EIOPA Guidelines)	16 April
QMA 30 June 2015 (for Lloyd's interim accounts)-Unaudited	06 August
QMA 30 June 2015 (for Lloyd's interim accounts)-Audited	20 August
Solvency II balance sheet (QMC) at 30 June 2015	03 September
Pillar 3 dry run, scope TBA	24 September
QSR/QAD 30 September 2015 (for compliance with EIOPA Guidelines)	05 November

# Summary

- ▶ 2015 is the final year before full Solvency II reporting applies
  - Ensure data gaps are addressed
  - IT solution implemented
  - Resources trained
  - In-house dry run carried out
  - Actively participate in UAT
  
- ▶ Help available from:
  - Lloyds.com Solvency II pages
  - Your account manager
  - [solvency2@lloyds.com](mailto:solvency2@lloyds.com)
  - [LLoyds-SolvencyReturns@lloyds.com](mailto:LLoyds-SolvencyReturns@lloyds.com)

# QUESTIONS?

