

# **SOLVENCY II BALANCE SHEET SUBMISSION**

**INSTRUCTIONS  
FEBRUARY 2012**





# CONTENTS

## Introduction

Purpose & Scope	3
Balance Sheet as at 31 December 2011	3
Balance Sheet as at 30 June 2012	3
Next steps	4

## Instructions for Completion

Completing the form	5
Asset & Liability analysis	5
Analysis of Members' Balances	7

## Appendices

1. Balance Sheet submission template
2. Draft Managing Agent's Report



# INTRODUCTION

## Purpose & scope

As set out in the syndicate 2012 Solvency II timetable, Lloyd's will require all managing agents to submit a full Solvency II balance sheet as at 30 June 2012, by 13 September 2012. Agents are also required to provide a Solvency II balance sheet as part of the standard formula re-run exercise as at 31 December 2011 currently scheduled for submission on 29 June 2012.

The Solvency II balance sheet is used to determine the net surplus / (deficit) at syndicate level on a Solvency II basis by reporting year of account. These will be needed to derive the net balance available to meet capital requirements for the members' 2013 Coming Into Line (CIL) process if, as intended, Lloyd's is able to use Solvency II internal models including the calculation of a Solvency Capital Requirement (SCR) (reflecting technical provisions determined on a Solvency II basis) to meet ICAS requirements for 2013. The net balance on a Solvency II basis would replace the current recognition of the June QMA net balance in the calculation of available assets to meet Economic Capital Assessments (ECA). However, agents should note that this is not yet finalised and is therefore subject to possible change. Lloyd's would hope to be able to confirm the position by 31 March 2012 at latest.

The Solvency II balance sheet will need to be completed by all syndicates that are required to submit a QMA as at 30 June 2012. Where a syndicate had been entirely closed by reinsurance to close as at 31 December 2011, the reinsuring syndicate must provide the 31 December 2011 Solvency II balance sheet to Lloyd's, referenced by the closed syndicate number.

This document provides instructions to managing agents in respect of completion of the Solvency II balance sheet, the draft managing agent's report and the template to be used for both returns.

## Balance Sheet as at 31 December 2011

As set out above, the calculation of the standard formula SCR as at 31 December 2011 will require the production of a Solvency II balance sheet and agents will be asked to complete the template shown at Appendix 1 in addition to the standard formula spreadsheet. This template can be downloaded from [lloyds.com](http://lloyds.com) via the link below:

[Link to balance sheet submission template](#)

Managing agents have previously submitted a Solvency II balance sheet as part of QIS5, but this submission requires the UK GAAP balance sheet as a start point, the adjustments to get to a Solvency II position and the Solvency II balance sheet at whole syndicate level. In addition, a breakdown of members' balances is required by reporting year so they can be allocated to members.

The Solvency II balance sheet as at 31 December 2011 does not require review by the syndicate auditors although the 30 June 2012 balance sheet does. A managing agent's report (910) on the 31 December 2011 Solvency II balance sheet is also not required. However, it is recommended that managing agents share with their auditors the 31 December 2011 Solvency II balance sheet as soon as possible as this will aid review and comparison for the submission as at 30 June 2012 and assist them in their preparations for the review.

## Balance Sheet as at 30 June 2012

The template attached at Appendix 1 should also be used for the 30 June balance sheet submission and the information required is the same as for the 31 December 2011 submission. For the June

2012 position, as this will represent the members' net balance held, which Lloyd's intends to recognise as an eligible asset to meet ECA for the November 2012 coming into line exercise, this submission is subject to review by the syndicate's auditors. This will not entail a full audit of the balance sheet itself but will be a review opinion that the figures contained therein are not unreasonable similar to the review opinion provided on the June QMA at present. There is no requirement for an actuarial opinion. A managing agent's report (910) is also required on the 30 June 2012 balance sheet and a draft of the proposed wording for this is attached at Appendix 2.

For the audit review opinion, Lloyd's are anticipating either a limited assurance wording under International Standard on Assurance Engagements (ISAE) 3000 or review opinion under International Standard on Review Engagements (UK and Ireland) (ISRE) 2410. The intended conclusion in the auditors' report is as follows: "Based on our work/review, nothing has come to our attention that causes us to believe that the Solvency II balance sheet has not been prepared, in all material aspects, in accordance with the instructions". However, Lloyd's is currently discussing the format and scope of the auditor's sign-off and further details will be provided by end March 2012. We are also discussing the implications where an auditor is unable to provide an unqualified opinion.

Please note that this does not affect the Solvency I requirements, which remain on the existing UK GAAP based QMA return. Equally, Lloyd's interim results for the six months to June 2012 will be based on the UK GAAP QMA.

## **Next Steps**

As noted above, Lloyd's will provide an update by end March 2012 on the basis of the review sign off required on the June 2012 Solvency II balance sheet, including any change required to the managing agent's report. In the meantime, agents should contact their Solvency II account manager or email [solvency2@lloyds.com](mailto:solvency2@lloyds.com) with any queries or comments on this document.

Lloyd's will provide an update on the reporting requirements as at December 2012 and associated auditor review in Q2 2012.

Agents should also note that all guidance issued is subject to ongoing discussion and change as the European Commission (EC), European Insurance and Occupational Pensions Authority (EIOPA) and FSA requirements become clearer.

# INSTRUCTIONS FOR COMPLETION

The Solvency II balance sheet must be completed using the template attached at Appendix 1 and in accordance with the instructions below and the line references and mapping to QMA2 as shown on the form itself.

## Completing the form

- No amounts should be input in the shaded cells and set formulas should not be modified.
- Assets should be entered as absolute whole and positive values while liabilities should be entered as absolute whole and negative values (consistent with QMA2). Analysis of members' balances should be input (as per QMA2) as follows:
  - (i) Due to members – negative
  - (ii) Due from members – positive
  - (iii) Funds in syndicate (FIS) - negative

## Asset and liability analysis – lines 1 to 54

### UK GAAP numbers

Column B must be completed in accordance with the UK GAAP balance sheet submitted as QMA2 column C, as part of the QMA, which will have been reviewed by syndicate auditors. A mapping to the line references in QMA2 is provided in column A. The UK GAAP numbers in the Solvency II balance sheet must agree to the reviewed QMA.

### Solvency II numbers

The valuation of each asset and liability on a Solvency II basis must be reported in column D with the adjustment from the UK GAAP figure in column B reported in column C.

### Technical provisions

These should be valued in accordance with Lloyd's Solvency II guidance titled "Technical Provisions under Solvency II Detailed Guidance (March 2011 update)". These instructions can be accessed through the following link:

[Link to Technical Provisions Guidance](#)

There are still areas of uncertainty relating to the calculation of technical provisions on a Solvency II basis. Some of the key uncertainties include: binary events, contract boundary for binder contracts and allowance for reinsurance on future business. Where agents have adopted a different approach from that detailed in the Lloyd's guidance, they should ensure that the approach taken is reasonable and that they can justify it.

Calculation of the risk margin as at 31 December 2011 should be based on the SCR submitted to Lloyd's on 31 October 2011 via the Lloyd's Capital Return (LCR). If a revised SCR has been produced for the final application pack (FAP) or for any other reason, then this should be used.

For the 30 June 2012 submission the risk margin should be based on the latest available SCR. This may be the SCR used for the 31 December 2011 calculation or a re-calculation of the SCR as at 30 June 2012 but should not relate to a future valuation period (i.e. not the 2013 underwriting year SCR to be submitted in July 2012). Where the risk profile has materially changed since the 31 December 2011 valuation, a re-calculation of the SCR should be performed as at the 30 June 2012 and the risk margin determined from this. Where there has been no material change to the risk profile a

simplification is allowed for an individual line of business and guidance on this can be found on page 61 of the Lloyd's Solvency II guidance referred to above.

Lloyd's are not expecting auditors to review the calculation of the SCR or the workings of the calculation kernel. Where the risk margin is determined based on simplifications then the auditor should review the process for deriving the risk margin from the SCR. Where the internal model produces a risk margin directly then the auditor should gain comfort in the appropriateness of this risk margin through benchmarking with other methods (such as the simplifications) or other sources.

In discounting technical provisions as at 31 December 2011, managing agents should use the risk free yield curves published by Lloyd's. These are contained in the following document, "Yield Curves at 31 December 2011" and this document can be accessed through the following link:

[Link to Yield curves at 31 December 2011](#)

If EIOPA/FSA have not issued yield curves as at 30 June 2012, Lloyd's will publish these on the web site later in the year.

#### **Investments**

These should be valued at fair value either at mark to market or mark to model. In the case of overseas deposits and commingled funds managed by Lloyd's, these have been assessed to ensure that their valuation is in accordance with Solvency II valuation principles. Hence, auditors do not need to review the valuation of the overseas deposits and commingled funds reflected on line 16 of the Solvency II balance sheet. However, they will need to ensure that this amount agrees to the statements issued by Lloyd's.

#### **Cash and cash equivalents**

Where money market funds meet definition of cash and cash equivalents as per IAS7 (Statement of cash flows), these should be reported through line 31, cash and cash equivalents. Definition of cash and cash equivalents as per IAS7 is as follows: "Cash comprises of cash on hand and demand deposits while cash equivalents are short-term highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value. Therefore, an investment normally qualifies as a cash equivalent only when it has a short maturity of, say, three months or less from the date of acquisition".

Valuation of these money market funds under UK GAAP is expected to meet Solvency II valuation requirements. Hence, Lloyd's expects that syndicates will only be reclassifying these money market funds from the respective lines in the QMA2 to the cash and cash equivalents line in the Solvency II balance sheet.

#### **Other assets and other liabilities**

These should be valued at fair value by discounting expected cash flows using a risk free rate. However, book value as per UK GAAP may be used as a proxy to the fair value for Solvency II balance sheet purposes where the impact of discounting is not material because the balances are due/payable within one year or amounts due/payable in more than one year are not material. Materiality should be determined in accordance with International Accounting Standards (IAS1) i.e. "Omissions or misstatements of items are material if they could, individually or collectively, influence the economic decisions that users make on the basis of the financial information. Materiality depends on the size and nature of the omission or misstatement judged in the surrounding circumstances."



**Further guidance**

For further information on what is required in each line of Column D, please refer to the narratives (LOGs) provided by EIOPA as part of the consultation package issued in November 2011. The consultation material can be accessed through the following link:

[Link to EIOPA web site](#)

**Analysis of Members' balances – lines 55 to 68**

Analysis of line 54 by reporting year of account is required so that a Solvency II result by reporting year may be allocated to members. Syndicates that reported "amounts due from members" and "funds in syndicate (FIS)" in QMA2, C32 must also include these amounts on the "Total due from members" and "Funds in syndicate (FIS)" lines 66 and 67 respectively. However, syndicates that transferred the amounts due from members included in QMA2, A32 to debtors through the reanalysis column, must not report this amount on the "Total due from members" line in the Solvency II balance sheet.

The Solvency II balance sheet as at 31 December 2011 may include future profit relating to contracts assigned to the 2012 reporting year of account by that date. Syndicates should report this future profit within D55.



# APPENDICES



# APPENDIX 1

Syndicate - Agent

31 December 2011/30 June 2012 (Delete as appropriate)

Overall Balance Sheet

Period: All Years of Account Combined

## Assets

1	Goodwill
2	Deferred acquisition costs
3	Intangible assets
4	Deferred tax assets
5	Pension benefit surplus
6	Property, plant & equipment held for own use
<b>Investments (other than assets held for index-linked and unit-linked funds)</b>	
7	Property (other than for own use)
8	Participations
9	Equities - listed
10	Equities - unlisted
11	Government Bonds
12	Corporate Bonds
13	Structured notes
14	Collateralised securities
15	Investment funds
16	Overseas deposits and commingled funds
17	Derivatives
18	Deposits other than cash equivalents
19	Loans & mortgages (except loans on policies)
20	Other investments
21	<b>Sub-total of investments (other than assets held for index-linked and unit-linked funds) (7 to 20)</b>
22	Assets held for index-linked and unit-linked funds
23	Loans on policies
24	Reinsurance recoverables (Reinsurers' share of technical provisions)
25	Reinsurance receivables
26	Deposits to cedants
27	Insurance & intermediaries receivables
28	Receivables (trade, not insurance)
29	Own shares
30	Amounts due in respect of own fund items or initial fund called up but not yet paid in
31	Cash and cash equivalents
32	Any other assets, not elsewhere shown
33	<b>Total assets (1 to 6 + 21 to 32)</b>
<b>Liabilities</b>	
<b>Technical provisions</b>	
34	Technical provisions calculated as a whole
35	Best Estimate
36	Risk margin
37	<b>Sub-total (34 to 36)</b>
38	Other technical provisions
39	Contingent liabilities
40	Provisions other than technical provisions
41	Pension benefit obligations
42	Deposits from reinsurers
43	Deferred tax liabilities
44	Derivatives
45	Debts owed to credit institutions
46	Financial liabilities other than debts owed to credit institutions
47	Insurance & intermediaries payables
48	Reinsurance payables
49	Payables (trade, not insurance)
50	Subordinated liabilities not in basic own funds
51	Subordinated liabilities in basic own funds
52	Any other liabilities, not elsewhere shown
53	<b>Total liabilities (37 to 52)</b>
54	<b>Excess of assets over liabilities (Members' balances) (33 + 53)</b>

Mapping of SII to QMA2 (column C)	UK GAAP - per QMA	Adjustments	Solvency II	Validations
A	B	C	D (B+C)	E
N/A			-	No amounts expected to be reported on this line
28			-	D2 expected to be zero
N/A			-	No amounts expected to be reported on this line
N/A			-	No amounts expected to be reported on this line
N/A			-	No amounts expected to be reported on this line
22			-	No amounts expected to be reported on this line
7			-	No amounts expected to be reported on this line
N/A			-	No amounts expected to be reported on this line
1			-	
1			-	
2			-	
2			-	
7			-	
7			-	
1 & 3			-	
6 & 24			-	
7			-	
5			-	
4			-	
7			-	
8	-	-	-	B21 expected to be equal to QMA2, C8
N/A			-	No amounts expected to be reported on this line
N/A			-	No amounts expected to be reported on this line
13			-	
15 & 19			-	
9			-	
14 & 18			-	
16 & 20			-	
N/A			-	No amounts expected to be reported on this line
N/A			-	No amounts expected to be reported on this line
1, 3, 5 & 23			-	
25, 27 & 29			-	
31	-	-	-	B33 expected to be equal to QMA2, C31
33 & 34			-	No amount is expected on D34
N/A			-	
N/A			-	
	-	-	-	
35			-	D38 expected to be zero
N/A			-	
37			-	
N/A			-	No amounts expected to be reported on this line
38			-	
N/A			-	No amounts expected to be reported on this line
43 & 49			-	
42 & 48			-	
41 & 47			-	
39 & 45			-	
40 & 46			-	
43 & 49			-	
N/A			-	No amounts expected to be reported on this line
N/A			-	No amounts expected to be reported on this line
51			-	
52	-	-	-	B53 expected to be equal to QMA2, C52
	-	-	-	
32	-	-	-	B54 expected to be equal to QMA2, C32

Analysis of Members' balances (Line 53) by Reporting Year of Account

Reporting year of account	Mapping to QMA	QMA	Adjustments	Solvency II
55 2012	360, A5			-
56 2011	360, A5			-
57 2010	360, A5			-
58 2009*	360, A5			-
59 2008*	360, A5			-
60 2007*	360, A5			-
61 2003*	360, A5			-
62 2000*	360, A5			-
63 1999*	360, A5			-
64 1998*	360, A5			-
65 Total (55 to 64)	205, A11	-	-	-
66 Total due from members	215, A11			-
67 Funds in syndicate (FIS)	202, A59			-
68 Total (65+66+67)	002, C32	-	-	-

Expected to equal line (54\*-1)

69 Check line 54 = line 68

OK

OK

OK

\* Run-off years

# 2009: Run-off year only as at 30 June 2012



## APPENDIX 2

### 910 MANAGING AGENT'S REPORT

**Syndicate Number:**

**Managing Agent Code:**

Six month period ended 30 June 2012

---

#### Solvency II Balance Sheet

To the Council of Lloyd's

#### Responsibilities

The "Solvency II Balance Sheet 30 June 2012 Submission" instructions issued by Lloyd's on 29 February 2012 ("the Instructions") require the managing agent to prepare a Solvency II Balance Sheet as at 30 June 2012 in respect of each syndicate that it manages.

In preparing the Solvency II Balance Sheet, the Managing Agent is required to comply with the Instructions as issued by Lloyd's including:

- ensuring that UK GAAP figures reported agree to those reported in the QMA as at 30 June 2012; and
- ensuring that the Technical Provisions figures as reported in the Solvency II Balance Sheet have been calculated in accordance with Lloyd's Solvency II guidance titled "**Technical Provisions under Solvency II Detailed Guidance (March 2011 update)**".

#### Certificate

We certify that the Solvency II Balance Sheet has been properly prepared in accordance with the Instructions.

**Signed:** ..... Finance Director\*

**Name:** ..... (BLOCK CAPITALS)

**Signed:** ..... Director\*

**Name:** ..... (BLOCK CAPITALS)

**On behalf of** ..... Managing Agent

**Date** .....

\* The signatories must be different