

SOLVENCY II VALUATION & BALANCE SHEET AND REPORTING & DISCLOSURE WORKSHOPS

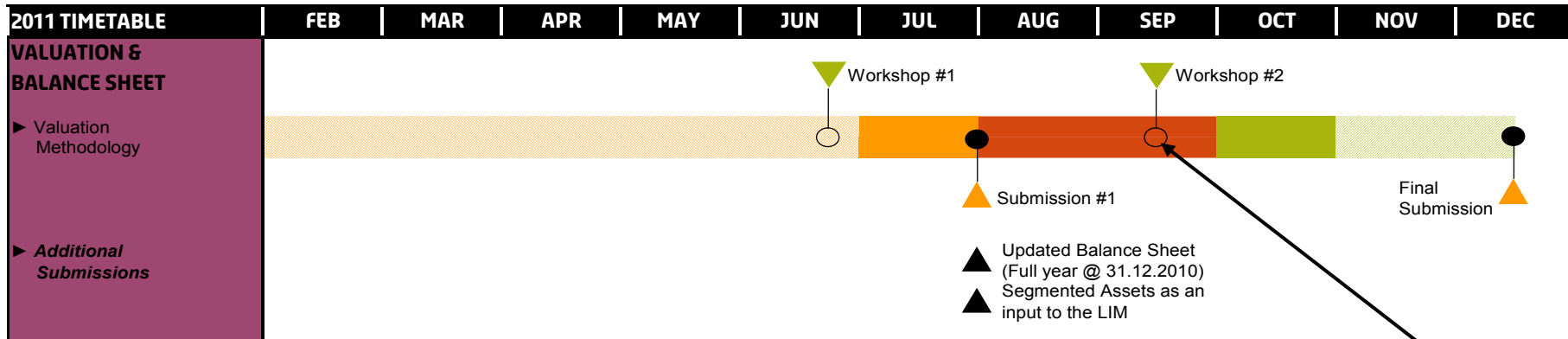
14 & 15 September 2011

Agenda

- Introduction and overview of workstreams
- Valuation & Balance Sheet
- Reporting & Disclosure
- Wrap up

INTRODUCTION & OVERVIEW OF WORKSTREAMS

Valuation & Balance Sheet - workstream overview

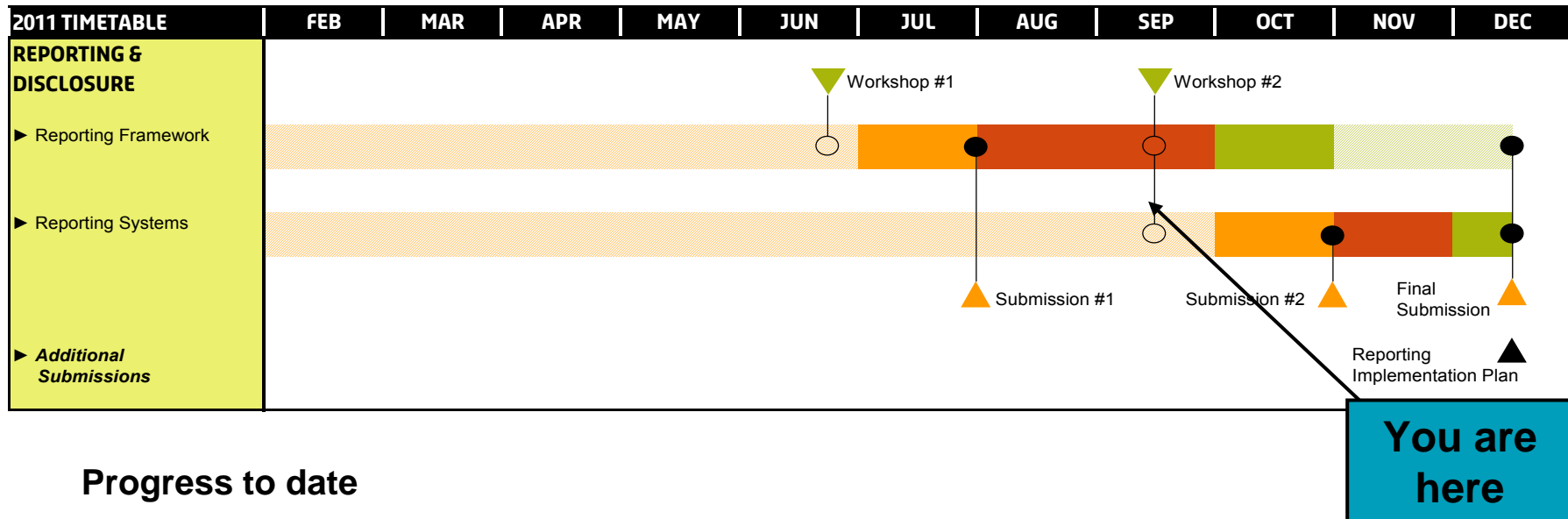


You are here

Progress to date

- LIM asset returns reviewed – provided required deliverable to LIM
 - lessons learnt and gaps in required MI under review
- Solvency II Balance sheet as at 31.12.10 (QIS5 re-run) received 29 July
- Summarised currency balance sheet returns received 29 July
 - confirms “6 plus 1” provides required coverage for TPs and overall balance sheet
- Evidence template submission received 29 July – currently under review
 - No further submission required until 16 December with FAP

Reporting & Disclosure - workstream overview

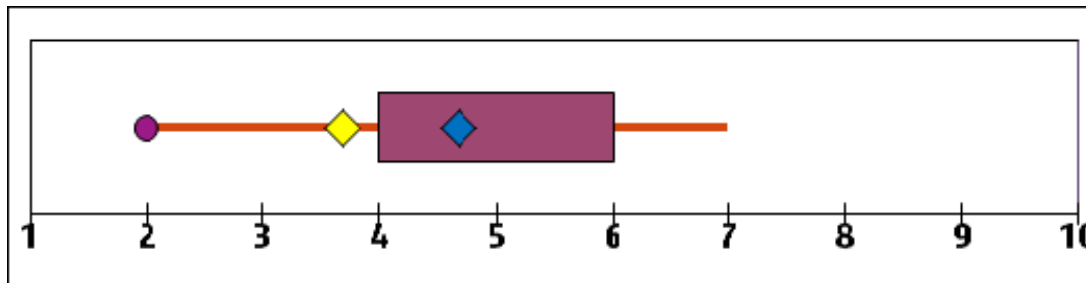


Progress to date

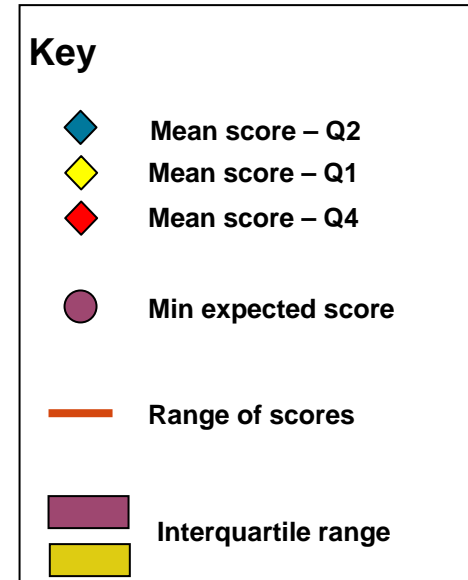
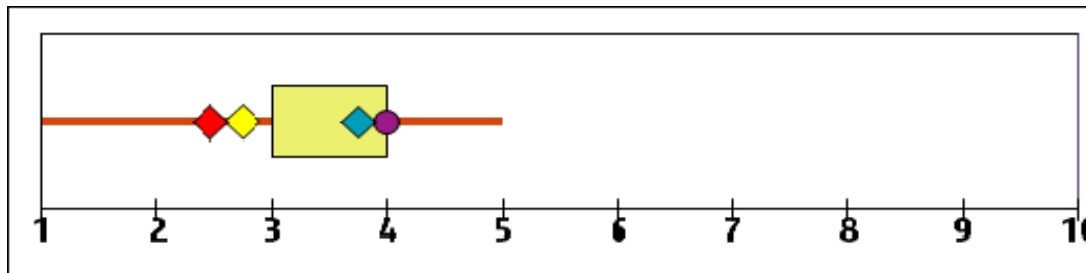
- Evidence templates received 29 July – reviews complete and feedback in progress
 - resubmission due 31 October
- Draft guidance on reporting implementation plans issued 26 August
 - collect views via workshop today
- No Solvency II basis reporting required as part of 2011 dry run process

Latest status of self assessment scores

Agent self assessment - Valuation & Balance Sheet



Agent self assessment – Reporting & Disclosure



Lloyd's is still working to current timetable

- Final guidance on FAP and ORSA now issued
 - both still subject to ongoing discussion with FSA – covered at workshops 3 & 4 October
- Draft guidance on SREP implementation plan issued for consultation and feedback
- Model Validation walkthroughs complete
 - work in progress to complete questionnaires and produce feedback
- FSA 'discovery' meetings now taking place for those agents in sample

FAP deadline 16 December 2011 – 13 weeks to go!!!

VALUATION AND BALANCE SHEET

Agenda

- **LIM asset data collection - Feedback**

Table Discussion

- QIS5 – balance sheet: early comments
- Evidence templates: early views and timetable for feedback
- Valuation methodology

Overall feedback

- Data submission achieved primary objective of populating LIM
 - E.G. Corporate bond aggregation of structured credit / sub-debts sufficient for calculation and attribution of risk
- All agents submitted asset level data
 - Although many limited information to “required” fields
 - Reduced ability to aggregate meaningful MI
- Look through test raised most issues
 - Cash and money market counterparties
 - Investment funds / CIS

Development points for Lloyd's

- Forecast data
 - Clarify when required v historical holdings
 - Intended to capture changes in strategy not market valuations
- Cash
 - Sweep funds Citi, RBCDexia – underlying assets
- Derivatives
 - Follow up showed significant complexity – template for significant exposures
- Investment funds
 - Guidance on materiality and methods / purpose of allocation

Next steps subject to uncertainty re latest ECON¹ report

- Previously understood as an asset level data Pillar 3 requirement
 - Annually and possibly quarterly
- Report on the text of the Omnibus II Directive and European Parliament started discussing it 31 August
 - “Member States shall not require insurance and reinsurance undertakings to submit to the supervisory authorities a full list of assets on an item-by-item basis.”
 - Justification is that 'It would be inappropriate to require a regular item-by-item reporting from undertakings'.
- Decision early 2012

(1) Economic and Monetary Affairs Committee of the European Parliament

Agents should plan for similar data collection as at Dec 2011

- Support LIM application
- At a minimum, same level of granularity of “required fields”
- Developing automated submission long term but may not be in CMR for HY1 2012
- Consultation internally and with LMA on associated uses and purposes of data collection
 - Play back to agents
 - MI e.g. territory and sector concentrations

TABLE DISCUSSION

LIM ASSET DATA COLLECTION

Discussion issues

- What is the impact of requiring additional granularity ?
 - Resource, availability, timing, investment managers' systems
- Is timing critical?
 - is the data available end Feb as part of year end reporting or is longer needed (as for SRD?)
- Would agents have an appetite for Management Information?
 - Benchmark VaR
 - Comparison to market aggregates – similar to PI packs

Agenda

- LIM asset data collection - Feedback

Table Discussion

- **QIS5 – balance sheet: early comments**
- Evidence templates: early views and timetable for feedback
- Valuation methodology

QIS5 reruns received and review in progress

- QIS5 reruns at 31 December 2010 submitted 29 July 2011
- Review in process and feedback will be given to agents by 30 September
- **Preliminary** findings:

	Current basis (£m)	QIS5 (rerun) (£m)	Change (2010) (%)	Change (2009) (%)
Assets	51,312	40,266	(22)	(13)
Technical provisions	45,023	34,503	(23)	(22)
Other liabilities	4,740	2,779	(41)	(28)
Basic own funds	1,566	2,993	91	46

Agenda

- LIM asset data collection - Feedback

Table Discussion

- QIS5 – balance sheet: early comments
- **Evidence templates: early views and timetable for feedback**
- Valuation methodology

We have started to review the evidence templates...

- Q2 Evidence templates submitted 29 July 2011
- Review and process and feedback de-prioritised:
 - Resources allocated on other agent submissions eg QIS5, other evidence templates
 - VBS workstream relatively small
 - No further submissions until final evidence template with FAP
- Feedback will be given to agents by mid October

... and have a few initial observations

- Limited use of mark to model
- No change from the current valuation for Investments
- Debtors not addressed in policy for valuation of financial assets
- Reference to UK GAAP and yet Solvency II only allows IFRS as a proxy – need to also confirm no differences GAAP to IFRS

Agenda

- LIM asset data collection - Feedback

Table Discussion

- QIS5 – balance sheet: early comments
- Evidence templates: early views and timetable for feedback
- **Valuation methodology**

Valuation methodology: some technical issues

- Treatment of debtors and creditors in technical provisions
- Book value v marked to model
 - Materiality
 - Treatment of accruals, prepayments and provisions
- Treatment of money market funds
- Linkage with Pillar 3

REPORTING AND DISCLOSURE

Agenda

- **Pillar 3 at Lloyd's – logistics and technical issues**
- Reporting framework and reporting systems
- Supervisory Reporting and Disclosure Implementation Plan

Table discussion

- Next steps

What is not finalised yet?

- Deadlines
- Content
- Public or private
- Quarterly requirements
- Audit requirements
- Transitional requirements and arrangements



When will we know more?

- EIOPA public consultation on templates Q4 2011
 - No significant changes expected
 - Change mainly expected on variation analysis templates
- Lloyd's issues updated draft QMR forms and detailed instructions Dec 2011
- Omnibus II finalised Q1 2012
- Level 2 (confirmation of deadlines) finalised H2 2012
- Level 3 (templates, content, audit requirements) finalised H2 2012

Should we have a **LIMITED Pillar 3 dry run in late 2012?**

YES

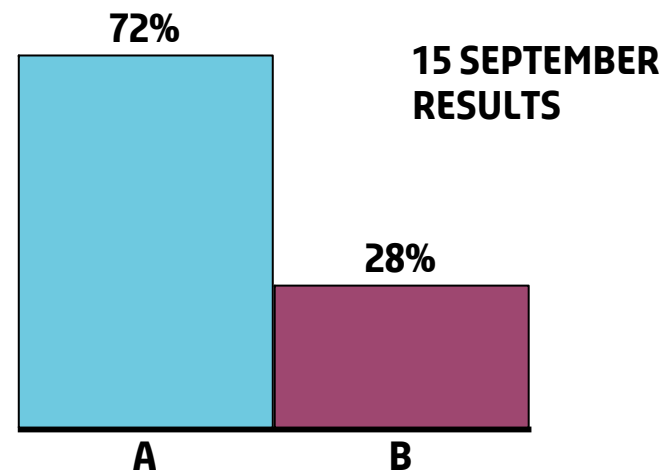
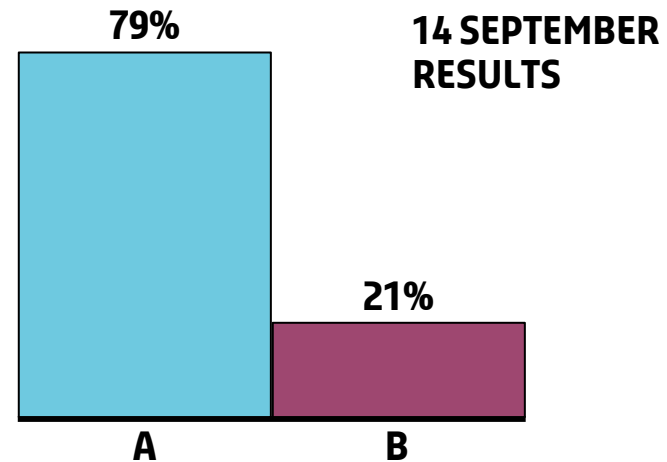
- **Limited dry run – familiarise agents with new requirements**
- **Iron out ‘wrinkles’ in advance**
- **Help embed as BAU**
- **Some Pillar 3 requirements likely in 2013 even if start date 2014**
- **Experience of 2001 FSA return and 2005 GAAP changes**

NO

- **Agents have enough to do!**
- **Agents will have access to UAT for Lloyd’s CMR systems as per usual**
- **No comparatives required**
- **Agents can test as part of general Pillar 3 implementation**
- **Formats and content not finalised**

... but what do you think?

- A. A formal **limited** Pillar 3 dry run in late 2012
- B. No – allow agents to test as part of their own programmes



Even if Solvency II is delayed...

- Omnibus II Directive texts currently being considered would mean...
 - Implementation plan (Council of the EU) or
 - Balance sheet, own funds, SCR, MCR, RSR (level of detail unknown) (European Parliament)

... it's likely there will be some Pillar 3 requirements in 2013...

...and there will be some reporting required on commencement of Solvency II

- As at 1 January 2013:
 - Opening financial statement of assets and liabilities - in accordance with Solvency II valuation principles
 - For each material class of assets and liabilities – qualitative explanation of the major differences between the opening financial statements and Solvency I (as per QMA)
 - Expected to be generic and Lloyd's will issue guidance
 - SCR
- This must be submitted no later than 8 weeks after 31 December 2012







We talked about reporting by currency last time...

- Solvency II requires reporting by material currency
- Currency materiality will be set at Lloyd's level for consistent reporting:
 - 95% of assets and liabilities in aggregate
 - asset/liability mismatch of more than 2% of total
 - 90% of technical provisions in aggregate



... and have now analysed the summary balance sheets by currency...

...which suggest 5 currencies* ...

		Assets by currency %	Assets cumulative %	TPs by currency %#	TPs cumulative %#
USD		62	62	58	58
GBP		18	80	21	79
EUR		8	88	9	88
CAD		6	94	4	92
AUD		4	98	4	96
OTH		2	100	4	100

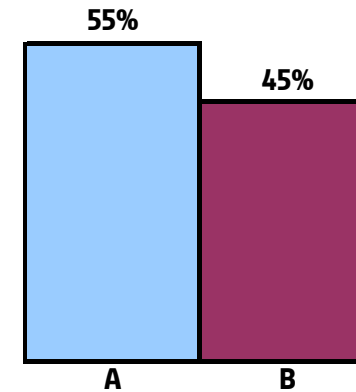
* Provisional results

Analysis is for ALL BUSINESS – TP test applies at CLASS OF BUSINESS level

...but there is market support for consistency with technical provisions...

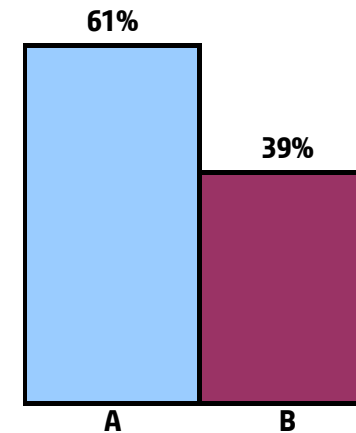
A. All returns at lowest level of granularity (6+1)?

22 JUNE RESULTS



B. Returns aggregated where possible

23 JUNE RESULTS



... so we shall have 6 (+ Other)!

- We need 6 currencies for TPs per TPD/GQD requirements:
 - USD, GBP, EUR, CAD, AUD & JPY
 - Plus 'Other'
- Reporting test applies at class of business level where JPY may be more material
- Collecting same currencies as for TPs provides consistency
- Unlikely to need to review currencies in foreseeable future

What about individual syndicates with large 'other' currencies?

'Other' currency (not in Top 5) greater than	Assets: No of syndicates	Technical provisions# No of syndicates
5%	18	32
10%	8	12
20%	1	5

- FSA will expect limited extra reporting for syndicates with large 'other' amounts
- Likely to be 20% or more of assets/technical provisions by class

Analysis is for ALL BUSINESS – TP test applies at CLASS OF BUSINESS level

Agenda

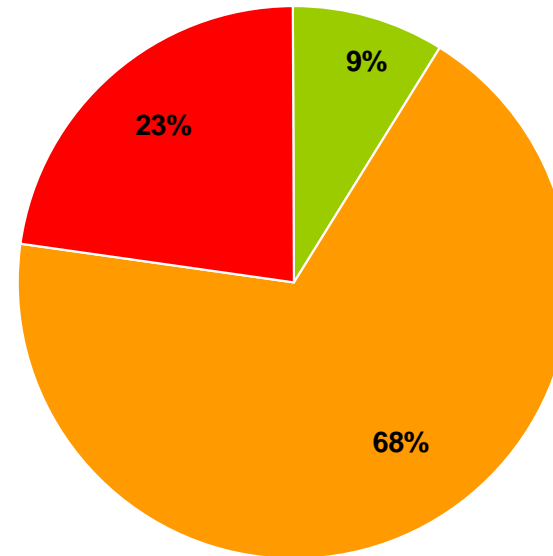
- Pillar 3 at Lloyd's – logistics and technical issues
- **Reporting framework and reporting systems**
- **Supervisory Reporting and Disclosure Implementation Plan**

Table discussion

- Next steps

We have reviewed the first SREP evidence templates...

- Most completed to a good standard for first submission
- Reporting framework addressed to a reasonable level
- Reviews and consistency checks complete
 - majority of feedback issued to agents



Lloyd's SREP Evidence Template ratings

... and there are some areas to improve

- Reporting framework
 - Control process
 - Approval of the reporting policy
- Reporting process
 - This is not specifically addressed in most cases
 - Evidence should include proposed process flow charts
- Systems – All relevant systems should be covered
- Evidence should include document, people, processes and systems

Key findings from the gap analysis should be highlighted in the evidence template

- Investment data
 - Portfolio listing
 - Look-through basis
- Need to change premium recognition process (legal obligation basis)
- Salvage and subrogation
- Contingent liabilities

Evidence template (extract)

CEIOPS' Advice Requirement	Explain how the final requirement has been met / progress to date	Evidence available & Type
<p>Reporting systems (Article 55) Reporting process Reporting deadlines for agents will be set by Lloyd's and the proposed timing based on the current timelines as proposed by EIOPA are as follows: Quarterly reporting (Quantitative templates) - 3 weeks in 2013 and 2 weeks thereafter Annual reporting (Quantitative templates and qualitative information) - 10 weeks for the 2013 year end and 8 weeks thereafter</p>	<p>These Lloyd's proposed timelines have been noted and they have been incorporated in the syndicate's timelines that are documented in the reporting framework (section 3). These will be reviewed and updated once the final Solvency II timelines are known.</p> <p>Solvency II timelines are accelerated compared to the current reporting timelines and discussions are being carried out between finance team and other departments (treasury, actuarial, underwriting and claims) involved in providing information required to complete the returns so as to determine if there are any changes required to be made to the syndicate's reporting process. The current thinking is that we might have to apply an early cut-off.</p> <p>The current reporting process, with minor amendments, will be able to meet Solvency II reporting requirements. The current process and proposed reporting process have been documented and these have been reviewed by the Finance Director. The proposed reporting process will be approved by the Solvency II steering committee in Q1 2012.</p>	<p>"Supervisory Reporting and Disclosure framework - "Reporting Framework V1" (Type: Document) - Section 3 (reporting timetable)</p> <p>Reporting process V1 (Document) - including reporting process flow charts</p> <p>Discussions between finance and other departments - Minutes date 17 February 2011, 5 April 2011 and 14 June 2011</p>
<p>All the quantitative reporting templates and the qualitative information shall be approved by the administrative, management or supervisory body of the agent.</p>	<p>As detailed in the reporting framework document (review process), all key reports/returns will be reviewed by person(s) not involved in the preparation of the documents. In the case of Solvency II reporting templates, these will be reviewed by the Finance Controller and Finance Director and will be signed off/approved by the Board.</p> <p>The Board's roles and responsibilities have been updated to include signing off/approving Solvency II returns.</p>	<p>Supervisory Reporting and Disclosure framework - "Reporting Framework V1" (Type: Document) - Section 4 (Review process) and Section 2 (Roles and responsibilities)</p> <p>Board minutes dated 3 May 2011 - roles and responsibilities</p>
<p>All quantitative reporting templates shall be submitted electronically.</p>	<p>Noted - This is the way the current QMA is submitted and hence the syndicate can meet this requirement. However, we will participate in the User Acceptance Testing (UAT) of the Solvency II forms. This has been included in the syndicate's reporting process</p>	<p>Reporting process V1 (Document)</p>
<p>Agents will need to have systems capable of meeting Solvency II reporting requirements</p>	<p>A review of our systems was carried out in May 2011 by ABC consultants to establish whether they can meet Solvency II reporting requirements. The review was carried out as part of the transformation project and all systems that are relevant to the reporting process were reviewed i.e. underwriting, actuarial, claims, treasury, general ledger and data warehouse. Gaps were identified in our systems and these have been documented including the proposed remediation.</p> <p>A follow-up review will be carried out at the end of Q4 2011 based on updated reporting requirements with the plan to start developing the systems in Q1 2012.</p> <p>We have started having discussions with the selected IT solutions provider and contract will be agreed in October 2011 with planning analysis work to begin immediately thereafter.</p> <p>Documentation of how the various systems will interact will be documented in Q1 2012 including controls existing in the systems as well as between the systems to ensure accuracy and completeness of data. These controls will be reviewed once a year by internal audit with management certification every quarter.</p>	<p>Reporting systems assessment (Document)</p> <p>Board minutes dated 12 May 2011 - Approval of the IT solutions provider (XYZ Ltd)</p> <p>Minutes dated 10 and 23 June 2011 - Initial planning meetings with XYZ Ltd</p> <p>Systems documentation (Solvency II section) - (Document) Controls listing (Document) Internal audit report (Document) Management certifications (Document)</p>

Reporting systems...

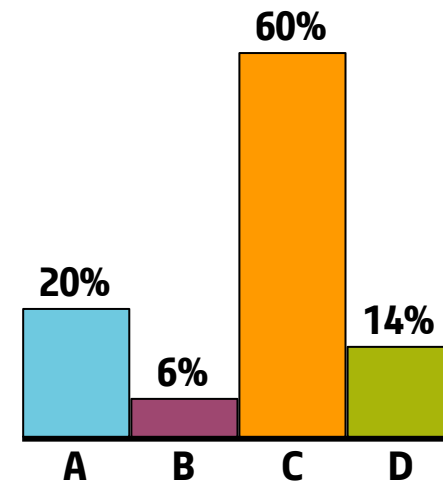
- All relevant systems must be covered i.e. underwriting, claims, actuarial, general ledger and data warehouse
- Where not developed, start having discussions with the IT solutions providers
- Documentation of how the systems interact
- Where possible automate the reporting process

...including related systems

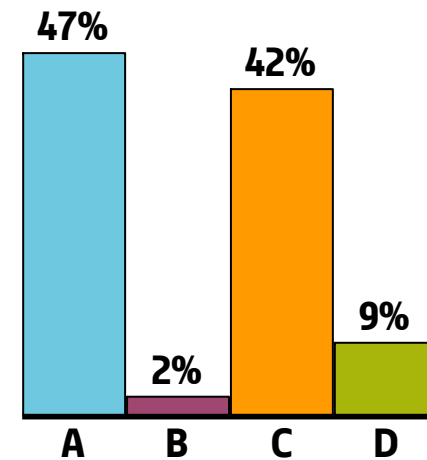
Have you started involving the external auditors?

- A. Yes, to a limited degree
- B. Yes, in all key decisions/changes being made
- C. No, will involve them at the end
- D. No, we do not feel it's necessary

14 SEPTEMBER RESULTS



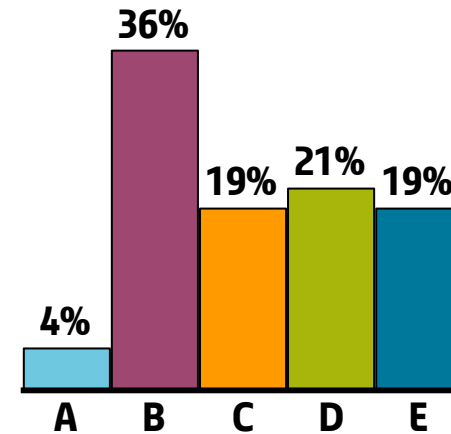
15 SEPTEMBER RESULTS



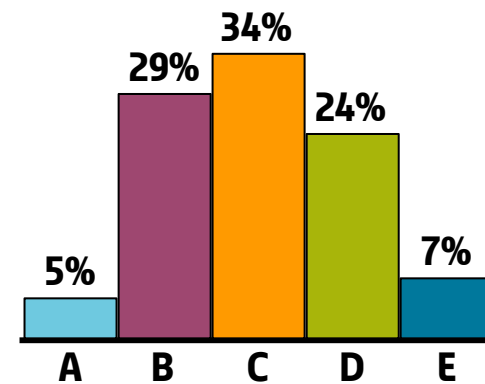
Have you started work on systems and what is the proposed BAU date?

- A. Yes, BAU by end 2011
- B. Yes, will be BAU in Q1/Q2 2012
- C. Yes, will be BAU in Q3 2012
- D. Yes, will be BAU in Q4 2012
- E. No, will start when final requirements are known

14 SEPTEMBER RESULTS



15 SEPTEMBER RESULTS

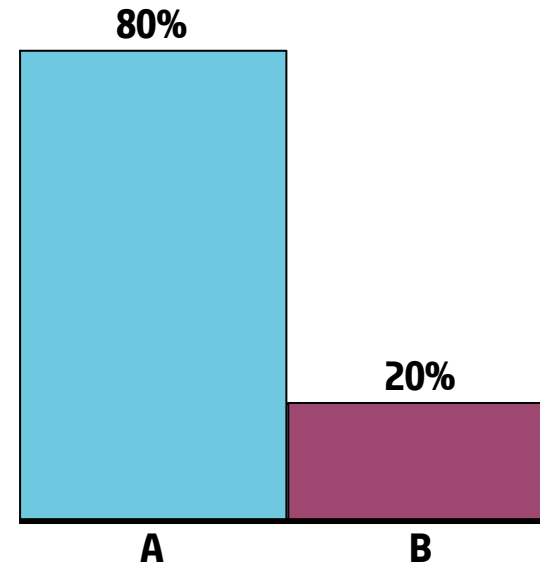


Have you started discussions with your IT solutions provider?

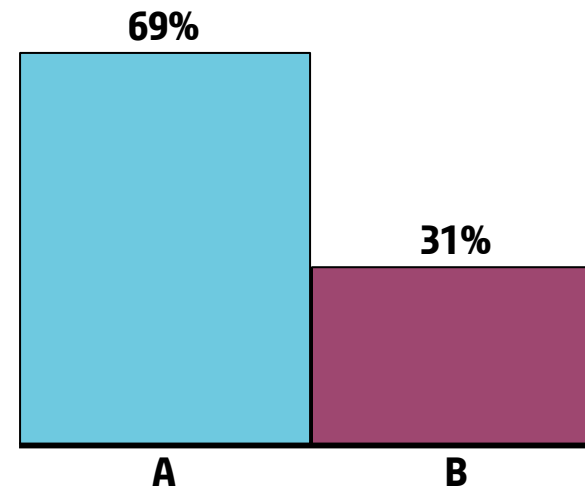
A. Yes

B. No

14 SEPTEMBER RESULTS



15 SEPTEMBER RESULTS



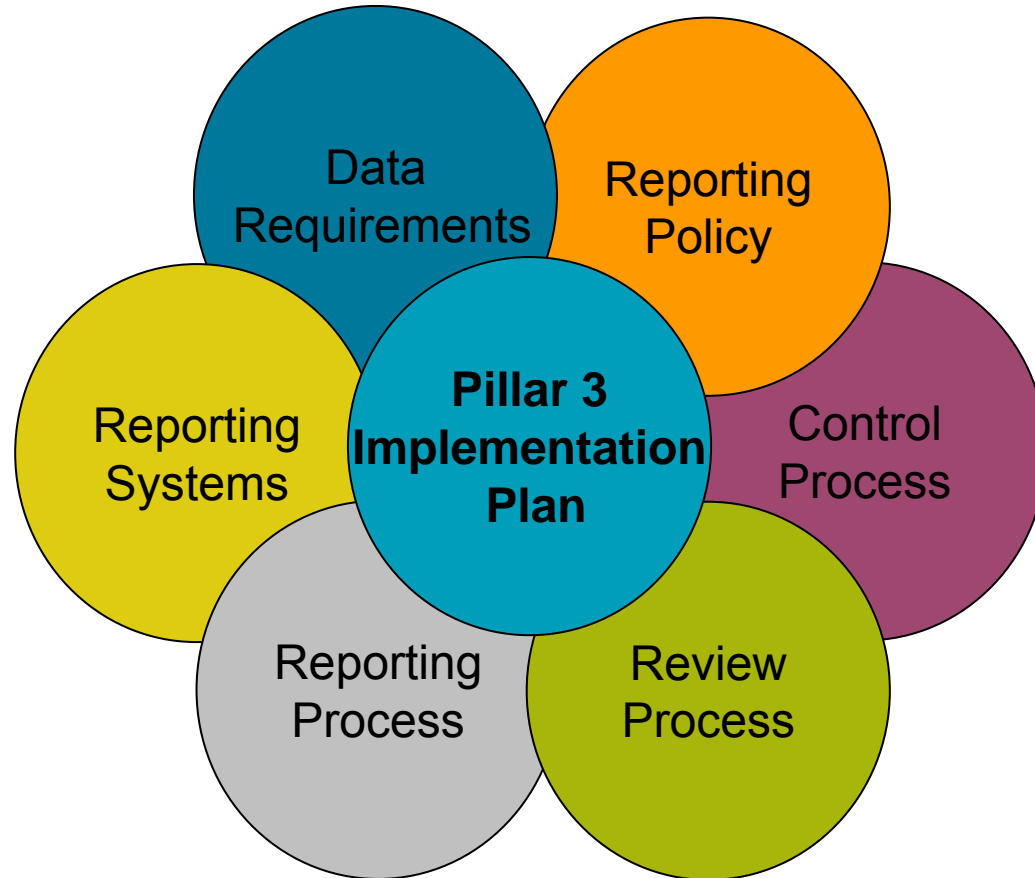
Agenda

- Pillar 3 at Lloyd's – logistics and technical issues
- Reporting framework and reporting systems
- **Supervisory Reporting and Disclosure Implementation Plan**

Table discussion

- Next steps

You need plans in place...



... to meet Pillar 3 requirements

Supervisory Reporting and Disclosure (SREP) Implementation Plan...

- Should be a stand alone document
- Should be consistent with evidence template and Final Application Pack (FAP)
- Cover all the four dry run elements
- Should provide details of completed areas as well as outstanding areas
- Documentation of the proposed plan, i.e. timing and documentation
- Should include a contingency plan

Agents to focus on progressing SREP workstream: 16 Dec requirement to submit plan removed

- Originally proposed:
 - Submit SREP implementation plan on 16 December 2011
- New approach:
 - Lloyd's will **NOT** require submission of SREP implementation plan
 - Agents must report status of all key areas in FAP
 - Where work is incomplete, set out status and when it will be complete

TABLE DISCUSSION

SREP IMPLEMENTATION PLAN GUIDANCE

Discussion - Reporting Implementation Plan Guidance

- Do you think the guidance provides additional/useful information at this point in time?
- Is there any particular area you would you like to see expanded?
- Do you think there is anything we have missed or misinterpreted?
- What is going to be the biggest challenge for your agency on Reporting?
- We will collate all results and include in published slides

SREP Implementation Plan – next steps...

- We shall:
 - Review guidance
 - Provide a worked example
- You still need to prepare a SREP implementation plan even if we don't require submission! (By Q2 2012 at latest)
- We will provide final guidance by 30 September



Agenda

- Pillar 3 at Lloyd's – logistics and technical issues
- Reporting framework and reporting systems
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Table discussion

- **Next steps**

2011 Timetable

- 31 October Evidence templates (version 2) due to be submitted
- 16 December Evidence templates (final) required as part of Final Application Pack
- 16 December Lloyd's issues updated pro forma syndicate return and full instructions
- 16 December Lloyd's issues guidance on qualitative reporting requirements

ROUND UP AND QUESTIONS

WRAP UP

What happens next?

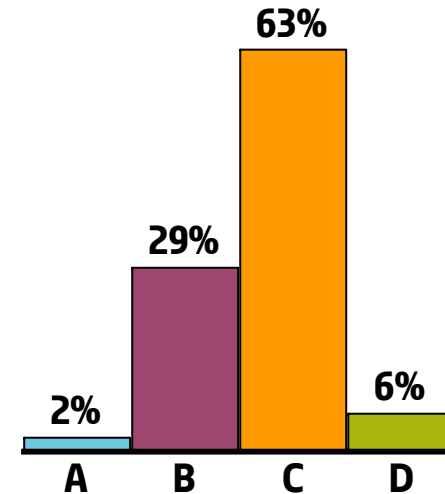
- Slides will be made available on lloyds.com after both workshops
- Review and feedback to be completed on VBAL evidence templates
- SREP evidence template (version 2) due 31 October

- Other upcoming sessions
 - Final Application Pack & ORSA – 3 & 4 October
 - Governance Risk Management & Use – 7 & 10 November
- Before you go, a request for feedback ...

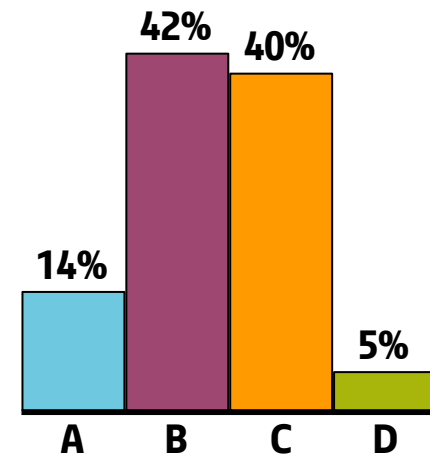
How useful have you found today's session?

- A. Very useful and I have learnt something
- B. Useful and we will use the slides for reference
- C. Useful, but greater technical guidance would have been beneficial
- D. Not very useful

14 SEPTEMBER RESULTS



15 SEPTEMBER RESULTS



How have you found format of today's workshop?

- A. I liked having 2 discussion sessions and balance was good
- B. I liked having 2 discussion sessions but they should be shorter
- C. I would prefer to have only one table discussion
- D. Would prefer less discussion and more presentation
- E. Other

