LLOYD'S

MARKET BULLETIN

REF: Y4910

Title	**Solvency II Technical Provisions Guidance 2015**
Purpose	To inform managing agents of the release of updated guidance relating to the setting of solvency II technical provisions
Type	Notification of publication
From	Catherine Scullion, Market Reserving & Capital Contact: 0207 327 5567, Catherine.Scullion@lloyds.com
Date	6 July 2015
Deadline	For immediate attention
Related links	http://www.lloyds.com/the-market/operating-at-lloyds/solvency-ii/information-for-managing-agents/guidance-and-workshops/technical-provisions-and-standard-formula

The detailed guidance on technical provisions under Solvency II valuation of liabilities is an update to previous guidance issued in 2011. The majority of the original guidance still holds. The areas where there have been changes or clarifications are listed below and detailed further in the guidance. The main update is to the treatment of reinsurance contract boundaries.

We expect the latest guidance to be followed for technical provisions calculation exercises from 2015Q2 onwards.

Update to previous guidance

The main update to the 2011 guidance relates to the contract boundaries to be considered for outwards reinsurance.

It has been clarified that for existing or contractually obliged reinsurance contracts, any contractually obliged premiums arising from current business should be included in full, with no consideration to the future inwards business. For future reinsurance contracts the expected proportion of the premium that applies to existing inwards contracts should be included. This proportion will need to be clearly justified.

The other four areas with either changes or clarifications since 2011 are:

- Confirmation of the treatment of contract boundaries on binders business as a "look through" basis. This is unchanged from Lloyd's original proposed approach.

- Recommendation that a “proportionate” run off simplification for the calculation of the risk margin is not appropriate without justification. This is a change from the original guidance.
- Introduction of matching and volatility adjustments to risk free rates and a description of why these are generally not significant for Lloyd’s entities.
- Relabelling “binary events” as “Events not in Data” or ENIDs, although their treatment is essentially unchanged from the original guidance

The most material change relates to consideration of premium for existing or legally obliged outwards reinsurance. Worked examples on this are included in the guidance to clarify the treatment of these.

Contact Details

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