



# **SOLVENCY II 2013 PLANNING WORKSHOPS**

22 & 25 January

# AGENDA

- ▶ **Introduction**
- ▶ **Review of FAS submissions**
- ▶ **2013 Plan and Guidance**
- ▶ **Risk Assurance Function**
- ▶ **Next Steps**



# RECAP OF DECEMBER BRIEFING MESSAGES

- ▶ Solvency II implementation delayed - but it's a “when” rather than an “if”
- ▶ Delay should not translate to “time to do more” but does give more time to complete what was already planned
- ▶ The principles of Solvency II reflect good risk management and business practice
- ▶ Phased transition to BAU beginning with those elements which add most value to Lloyd's and agents
- ▶ No reversal – SCR models have worked for 2013 so we should continue to use going forward and impact on capital is minimal
- ▶ Year end attestation will apply so we have clear fixed point
- ▶ Consequences softened for those not meeting but feedback must be addressed to avoid penalties
- ▶ 2013 focus for Lloyd's on development of standards and broader risk oversight

# EIOPA CONCERNED ABOUT SOLVENCY II DELAY AND WILL PROPOSE 'INTERIM MEASURES'

- ▶ Will be addressed to national regulators who will have to 'comply or explain'
- ▶ Would apply from 1 January 2014 (consultation Spring 2013) and cover:
  - Governance, risk management, and forward assessment of risks on 'ORSA principles'
  - Supervisory review of governance (Pillar 2)
  - Internal model approval process
  - Information needed 'necessary for applying a prospective and risk based supervisory approach'
- ▶ Cannot legally be based on Solvency II requirements but will reflect Level 1 principles
- ▶ Existing UK regulatory requirements in line with anticipated Pillar 2 measures
  
- ▶ **Impact not expected to be significant**

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# A BINARY ASSESSMENT AS AT 31.12.12 IS STILL REQUIRED

- ▶ Lloyd's does not consider that 100% compliance against the full tests and standards is required at this point
- ▶ Lloyd's will attest that "Agent **meets the principles** of all tests and standards" as opposed to "**meets** all tests and standards"
  - sufficient structure, processes and policies are in place which address Solvency II requirements
  - full granularity of underlying requirements not necessarily in place
  - operating model not perfected but good enough to begin running and embedding key processes
  - Lloyd's interpretation and application of requirements may still be under discussion with an agent
- ▶ Formal assessment by end January 2013 on work completed against Pillar 1 & 2 requirements as at 31.12.12

# WHAT DOES MEETING THE “PRINCIPLES” MEAN?

## EXAMPLE – MODEL CHANGE POLICY

### Completed

- ▶ Agent has model change policy in place, operational for 2013, which addresses directive requirements
  - Policy clearly sets out the governance process to be followed for change
  - Classification of major and minor changes is clear
  - Major change trigger(s) set with clear rationale and examples to justify (10-15%)
  - Model scope extension is classified separately to change process

### Not fully finalised

- ▶ Agent may not yet be able to fully demonstrate changes going through the agreed process
- ▶ Some detailed requirements may need further guidance from Lloyd’s/FSA, eg:
  - Aggregation of minor changes – start point and netting off vs absolute movements
  - Treatment of parameter changes

**BUT** each agent should have an approach detailed on these elements which can be followed in 2013

# WHAT WILL A YES OR NO MEAN AT 31.12.12...

<p style="text-align: center;"><b>YES</b> (Green rating)</p>	<p style="text-align: center;"><b>NO</b> (Amber/Red rating)</p>
<p>✓ All areas meet principles of SII requirements <i>and</i></p> <p>✓ Lloyd's &amp; FSA material feedback addressed by 31 December <i>and</i></p> <p>✓ Work outstanding is minor/developmental only <i>and</i></p> <p>✓ Project phase finished and most elements in use (<i>excl Pillar III</i>) <i>and</i></p> <p>✓ Credible operating model and structure established <i>and</i></p> <p>✓ SCR reviews demonstrate model is credible and robust (<i>ie SCR methodology was appropriate and any loading was down to a difference of opinion – eg on parameters</i>)</p>	<p>✗ At least one area does not meet principles of SII requirements <i>and/or</i></p> <p>✗ Material feedback remains unaddressed at 31 December <i>and/or</i></p> <p>✗ Work outstanding will require significant resource and/or time to address <i>and/or</i></p> <p>✗ Significant project work remaining to be completed (<i>over and above Pillar III</i>) <i>and/or</i></p> <p>✗ Agent has not set out a credible operating model at this stage <i>and/or</i></p> <p>✗ SCR reviews raise material concerns over model and output</p>

**NOTE:** AMBER & RED ratings defined by how many of the areas above an agent is failing to meet and the degree of work remaining

# ...AND WHAT IS THE IMPACT FOR AGENTS?

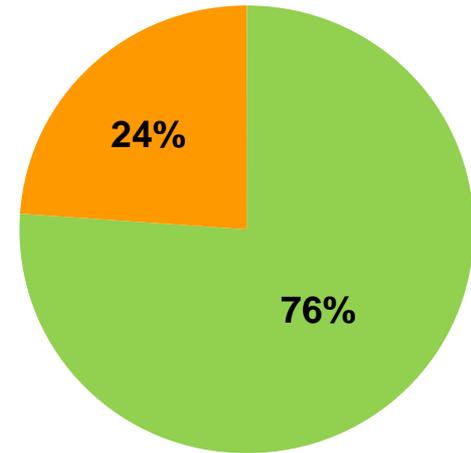
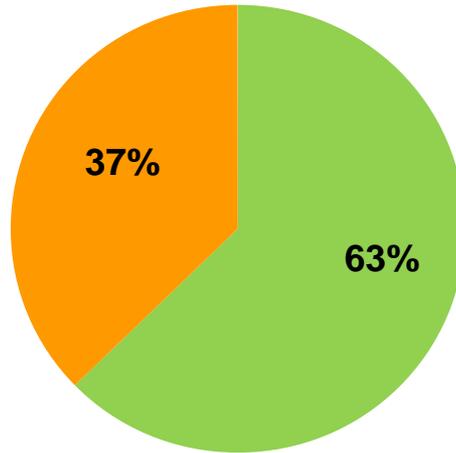
<p style="text-align: center;"><b>YES</b> (<b>Green</b> rated agents)</p>	<p style="text-align: center;"><b>NO</b> (<b>Amber/Red</b> rated agents)</p>
<p><b><i>SCR review actions have already addressed ICAS requirements</i></b></p>	
<ul style="list-style-type: none"> <li>• Support agents in enhancing and embedding processes in operational mode</li> <li>• Full Agent Status Reports not required (but follow up on feedback)</li> <li>• Developmental feedback provided on all timetabled submissions</li> <li>• <b>Prudential measures would not apply</b></li> </ul>	<ul style="list-style-type: none"> <li>• Greater level of scrutiny and oversight</li> <li>• Status reporting required with regular and frequent interaction</li> <li>• Additional resubmissions required to address feedback on top of timetabled deliverables</li> <li>• Deadlines set for completion of work (<i>Fines will be considered for lack of response to feedback</i>)</li> <li>• <b>Prudential measures would only be applied at year end if Lloyd's considers gaps mean that agent poses greater risk to CF</b></li> </ul>

# FINAL DROP ASSESSMENTS IN PROGRESS

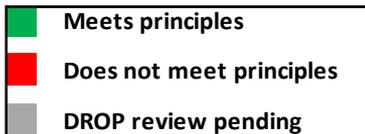
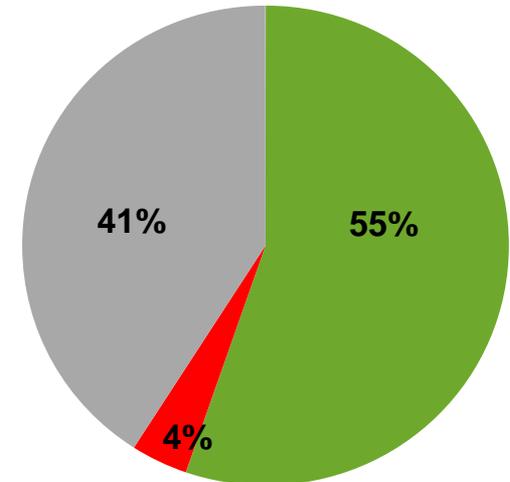
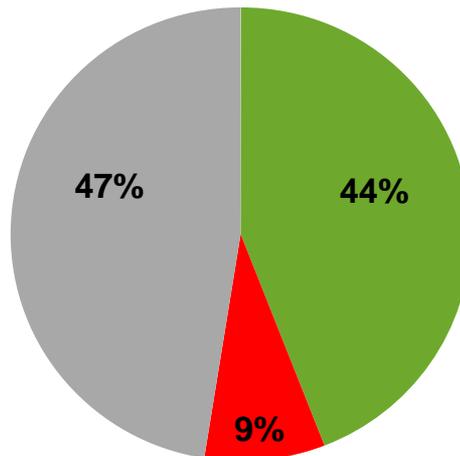
## By Agent

## By 2013 SCR

**RAG RATINGS @  
18 JANUARY**

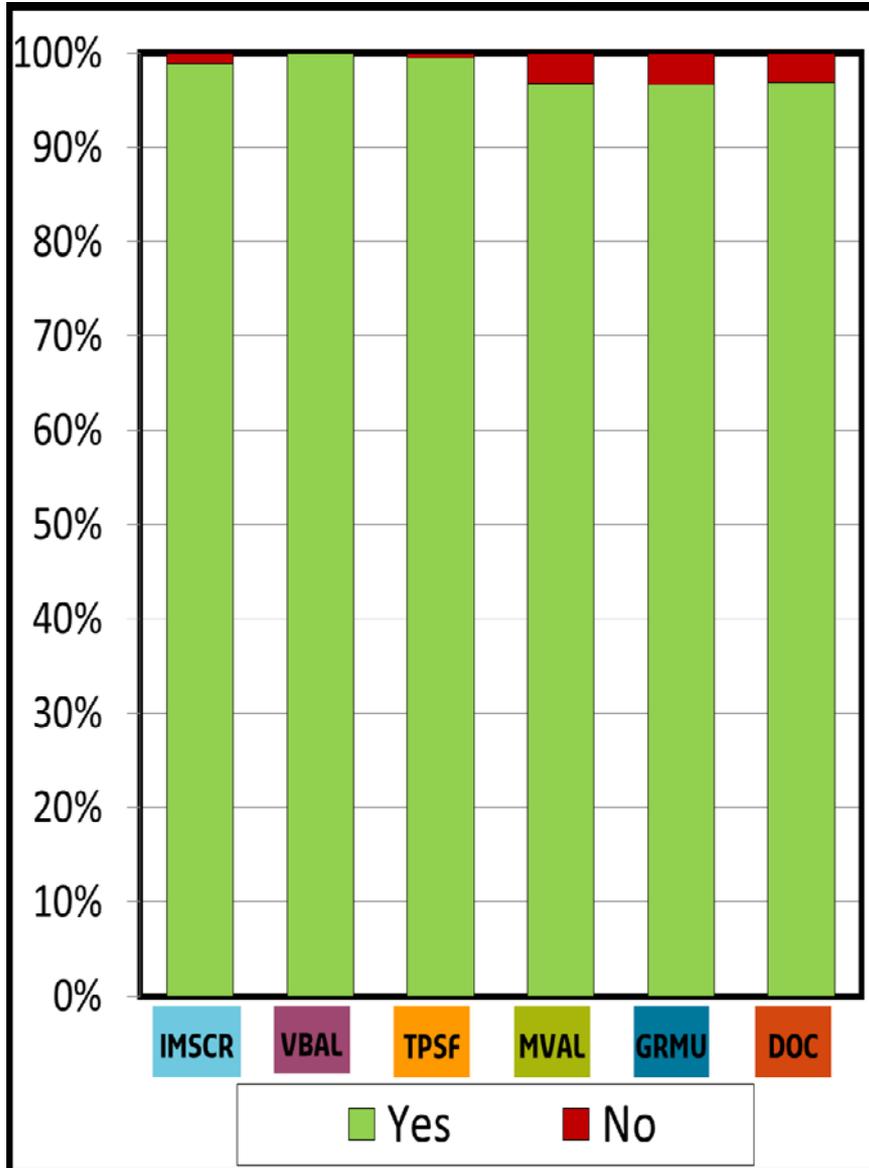


**DROP ASSESSMENTS  
TO 18 JANUARY**

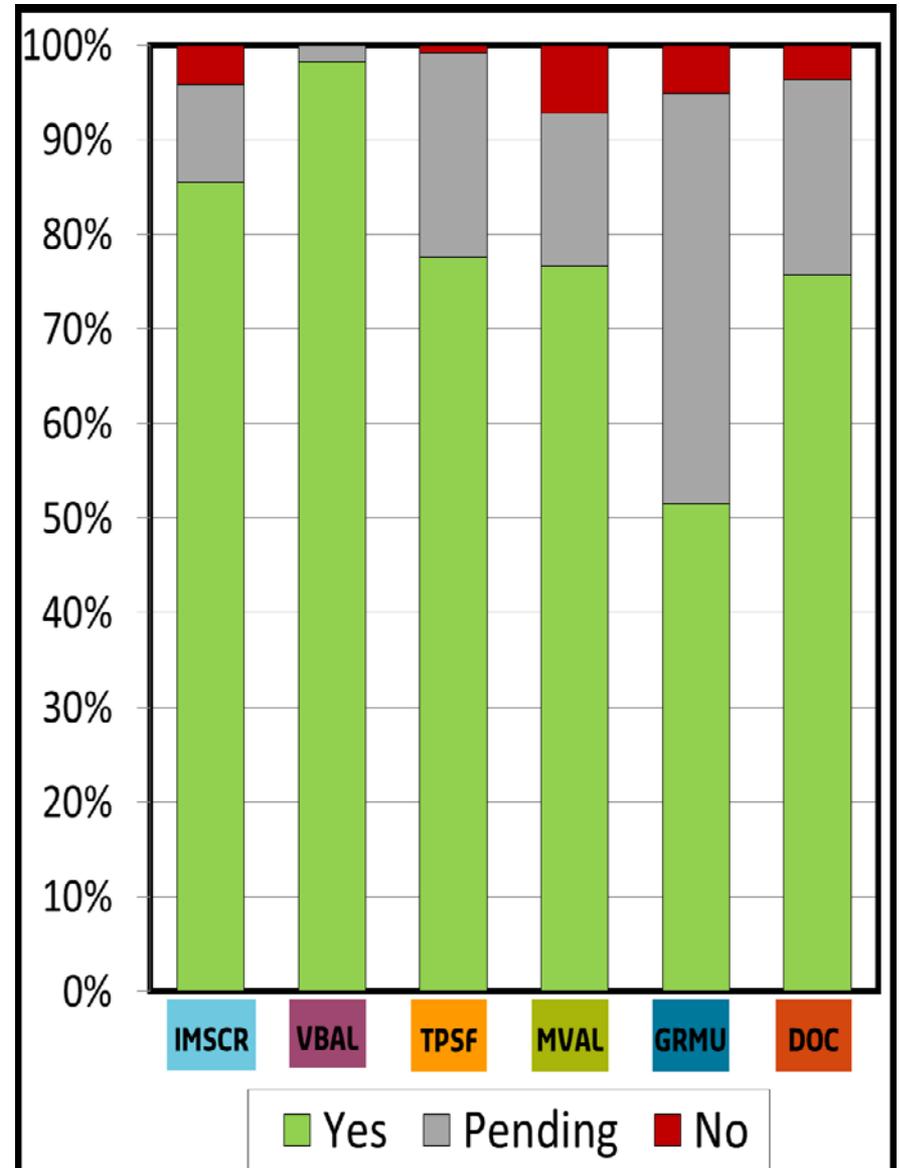


# HIGHER NUMBER OF GAPS AGAINST FULL TESTS & STANDARDS REFLECT FURTHER WORK ON BOTH SIDES

## PRINCIPLES



## TESTS & STANDARDS



# FAS OUTPUT AND FOLLOW UP IN 2013

- ▶ All agents advised of DROP outcome as meetings take place
  - formal letters to follow in February confirming status and rating
- ▶ Clear picture of what is outstanding against both the principles and full tests and standards as appropriate
- ▶ Any “principles” issues need to be addressed asap
  - target end Q1 but recognise some work (eg on use test) may take longer
  - likely to require resubmission of relevant documentation to close
- ▶ Feedback log will capture all other outstanding review points
  - determine what is tests & standards vs developmental/optional
  - agree what needs to be actioned and when so issues can be closed
  - agent/Lloyd’s to agree and keep up to date throughout 2013
- ▶ Feedback to be reflected in next timetabled submission unless interim submission date agreed

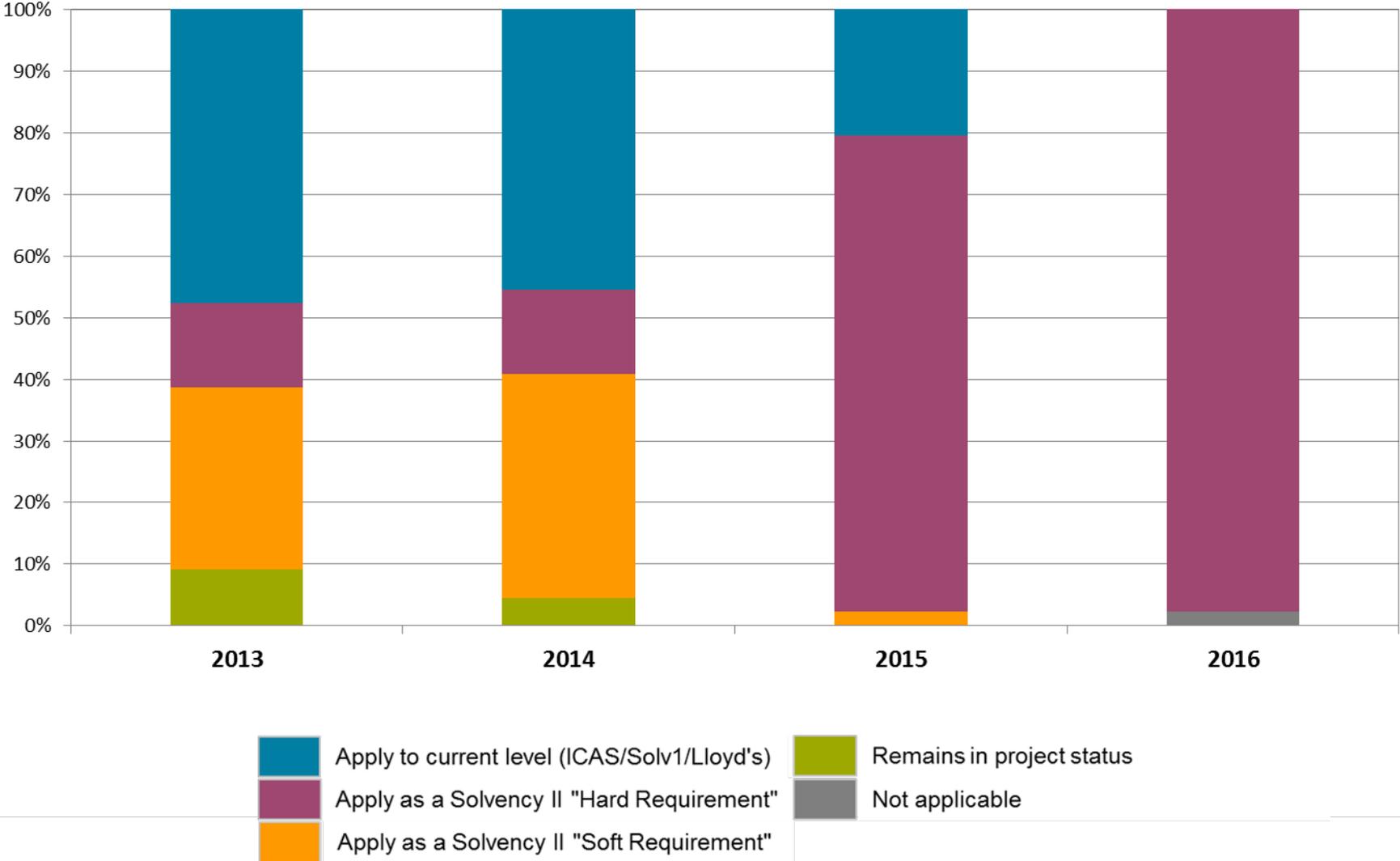
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# BASIS FOR 2013 PLAN

- ▶ Lloyd's will continue to use Solvency II models to meet ICAS requirements therefore quantitative requirements apply on “**hard test**” basis
  - same basis as BAU deliverables and must comply with all relevant requirements
- ▶ Qualitative requirements would be applied to current ICAS, Solvency 1 or Lloyd's Standards level as a minimum
- ▶ Key valuable Solvency II processes run on a “**soft test**” basis with mandatory submissions
  - Validation, Model Change and ORSA
- ▶ Submissions required on “best efforts” basis
  - maintain current level of meeting principles and continue to address outstanding feedback
- ▶ Agents should be able to evidence continued use and embedding of model
- ▶ Solvency II evidence templates and documentation should be maintained and updated
- ▶ Operating models should be developed, tested and refined

# PROPOSED APPROACH TO SOLVENCY II PHASING – BY NUMBER OF DRY RUN SCORING ELEMENTS



# WHAT ARE THE KEY CHANGES FROM 2012?

- ▶ Reduction in the level of submissions required as project phase winds down
- ▶ No self assessment scoring or full ASR's required
- ▶ Closer alignment to business as usual timetable
- ▶ Move away from seven workstream splits
  - quantitative and qualitative split used in 2013 timetable

## **But some constants :**

- ▶ Requirement to maintain Independent Assurance process
- ▶ Workshops will continue to share review requirements and findings as we move towards business as usual
- ▶ Guidance will continue to be updated as Lloyd's view of requirements develops

# NO MATERIAL CONCERNS RAISED BY AGENTS ON PROPOSED APPROACH AND TIMETABLE

- ▶ Majority of questions raised on format and depth of Independent Assurance requirements
- ▶ Clarity on soft test vs hard test requirements
- ▶ Clarity on requirements for board sign off on status in October
- ▶ Query on validation and level of independence required
- ▶ Request for as much finality as possible from Q1 DROP reviews to avoid significant re-review
- ▶ Request for further information on ORSA scenarios
- ▶ Request for additional workshop sessions
  - Validation Report
  - Solvency II Balance Sheet

# WHAT DOES A SOFT TEST REQUIREMENT MEAN?

- ▶ Agents should run processes according to the policies they have in place
  - per operating models submitted to Lloyd's in October 2012
- ▶ Lloyd's will require submissions from agents on a best efforts basis
  - timetable and frequency to be agreed for individual areas
  - developmental feedback loop but do expect agents to action
- ▶ Further support provided from Lloyd's via workshops, guidance and thematic review work

## EXAMPLE – MODEL CHANGE POLICY

- Scope and frequency of model change assessment should continue as per the agent's model change policy
- Model is not yet locked down and “approved” so no formal approval required from Lloyd's on major changes
- Lloyd's will require submissions from agents but lower frequency than BAU (*ie not quarterly at this stage*)
- Lloyd's will review basis of application of policy and provide developmental feedback to agents
- Lloyd's will continue to provide market guidance and develop its own BAU processes

# INDEPENDENT ASSURANCE CONTINUES TO BE IMPORTANT

- ▶ No significant Lloyd's re-review work against test & standards planned ahead of full Solvency II implementation
  - evidence templates remain a key tool and should be maintained
- ▶ Lloyd's will use 31.12.12 assessment point as a basis and maintain an on-going view on agent rating and status
- ▶ Onus on agents to demonstrate that current status is being maintained as a minimum
- ▶ Important to maintain principles of assurance process established for the dry run
  - can be scaled back in some areas – eg no self scoring
  - but don't throw it away!

# ANNUAL SUMMARY OF SOLVENCY II POSITION WILL BE REQUIRED

- ▶ No full quarterly attestation on SII compliance required in 2013 & 2014
  - capital adequacy confirmation will remain as under ICAS
- ▶ Annual board level sign off on status a requirement for 2013 & 2014
  - confirmation statements to be signed similar to FAP & FAS submissions
- ▶ Agents should be able to provide a summary of assurance activity conducted if required
  - no large report required to be submitted by agents but evidence available of work conducted and conclusions if required
- ▶ Reliance placed on existing processes where possible – eg validation process and internal audit review cycles
- ▶ Lloyd's will provide further detail for market consultation

# UPDATED 2013 TIMETABLE

	JANUARY	FEBRUARY	MARCH	APRIL	MAY	JUNE	JULY	AUGUST	SEPTEMBER	OCTOBER	NOVEMBER	DECEMBER
<b>QUANTITATIVE SUBMISSIONS</b>	TPSF 10 January OGD return		VBAL 7 March SII Balance Sheet @31/12/12  IMSCR 7 March 2013 SCR Re-assessment	TPSF 4 April TPD @ 31/12/12  TPSF 11 April OGD Return		VBAL June LIM Asset Data Dry Run @31/12/12	TPSF 11 July OGD Return  IMSCR 4 July * Draft SCR via LCR		VBAL 5 Sept SII Balance Sheet @30/9/13  IMSCR 12/19 Sept * <small>(non aligned dates)</small> Final SCR via LCR	TPSF 10 October OGD return	VBAL 1 November LIM Asset Data @30/09/13	
<b>QUALITATIVE SUBMISSIONS</b>			GRMU 28 March ORSA Submission	GRMU 19 April Actuarial Function			GRMU 4 July Model Change Report		MVAL 28 Sept * Validation Report	DFA 4 October Board confirmation		
<b>WORKSHOPS/ BRIEFINGS</b>	IMSCR 18 January SCR Briefing  DFA 22 & 25 Jan 2013 Planning Workshop	27 & 28 February	GRMU 19 & 20 March Use test Workshop	17 & 18 April Directors Briefing  3 & 4 April	14 & 15 May  23 & 24 May	11 & 12 June	16 & 17 July	6 & 7 August	SREP 17 & 18 Sept Reporting Workshop	GRMU 16 & 18 Oct ORSA Model change w/ship	12 & 16 November Directors Briefing  20 & 21	11 & 12 December

KEY:  Unassigned workshop

## NOTES:

- (1) Boxes with a solid fill represent a hard test submission
- (2) Boxes with a patterned fill represent a soft test submission
- (3) A red date signifies a provisional date (*to be confirmed in Q1*)

# FINAL GUIDANCE WILL BE ISSUED 31 JANUARY

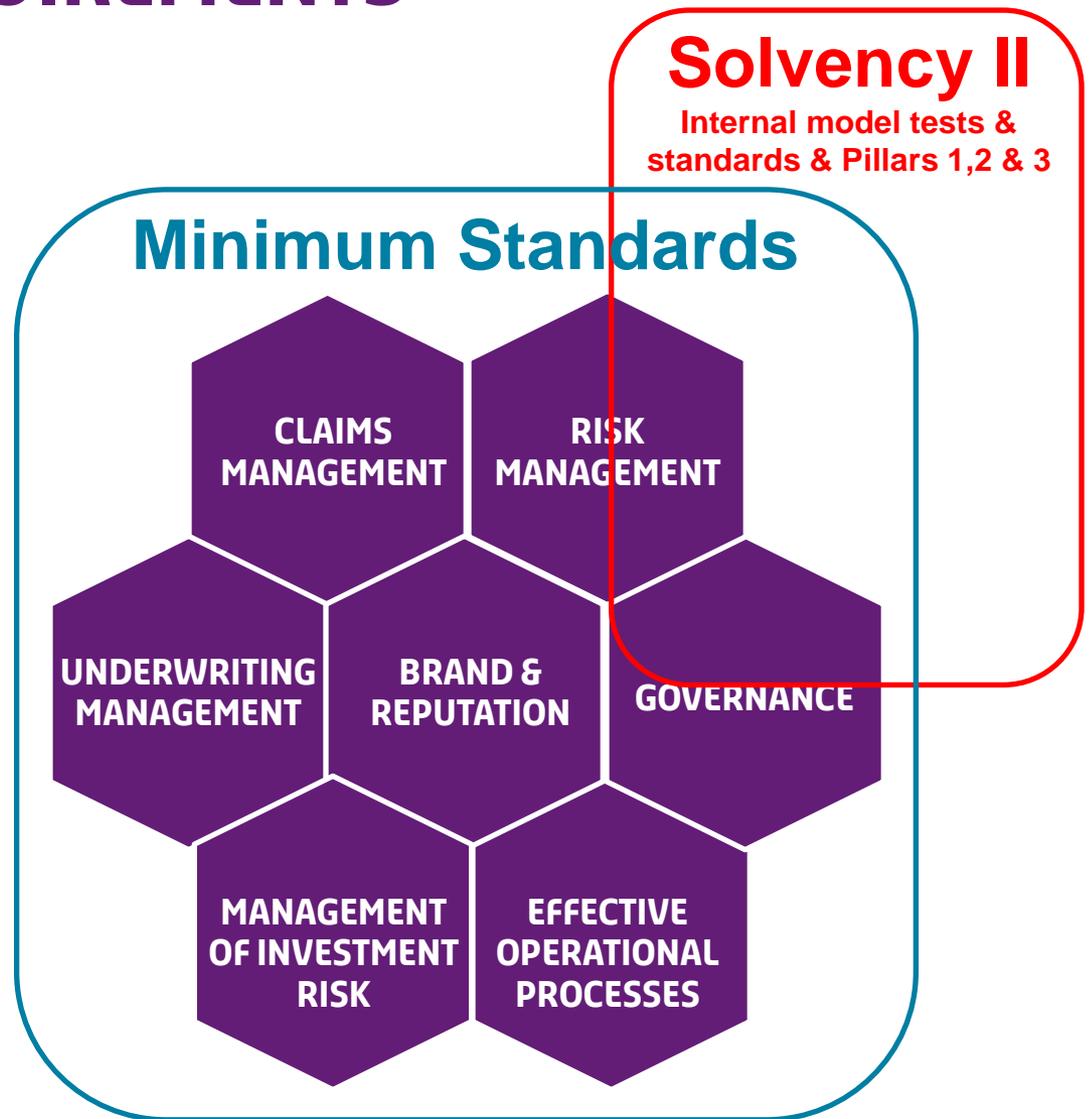
- ▶ No major change from draft issued in December 2012
- ▶ Updated to reflect market feedback where appropriate
- ▶ Changes to capital timetable dates (*provisional until end February*)
- ▶ Further clarification provided on submissions
- ▶ Additional clarification on Independent Assurance requirements

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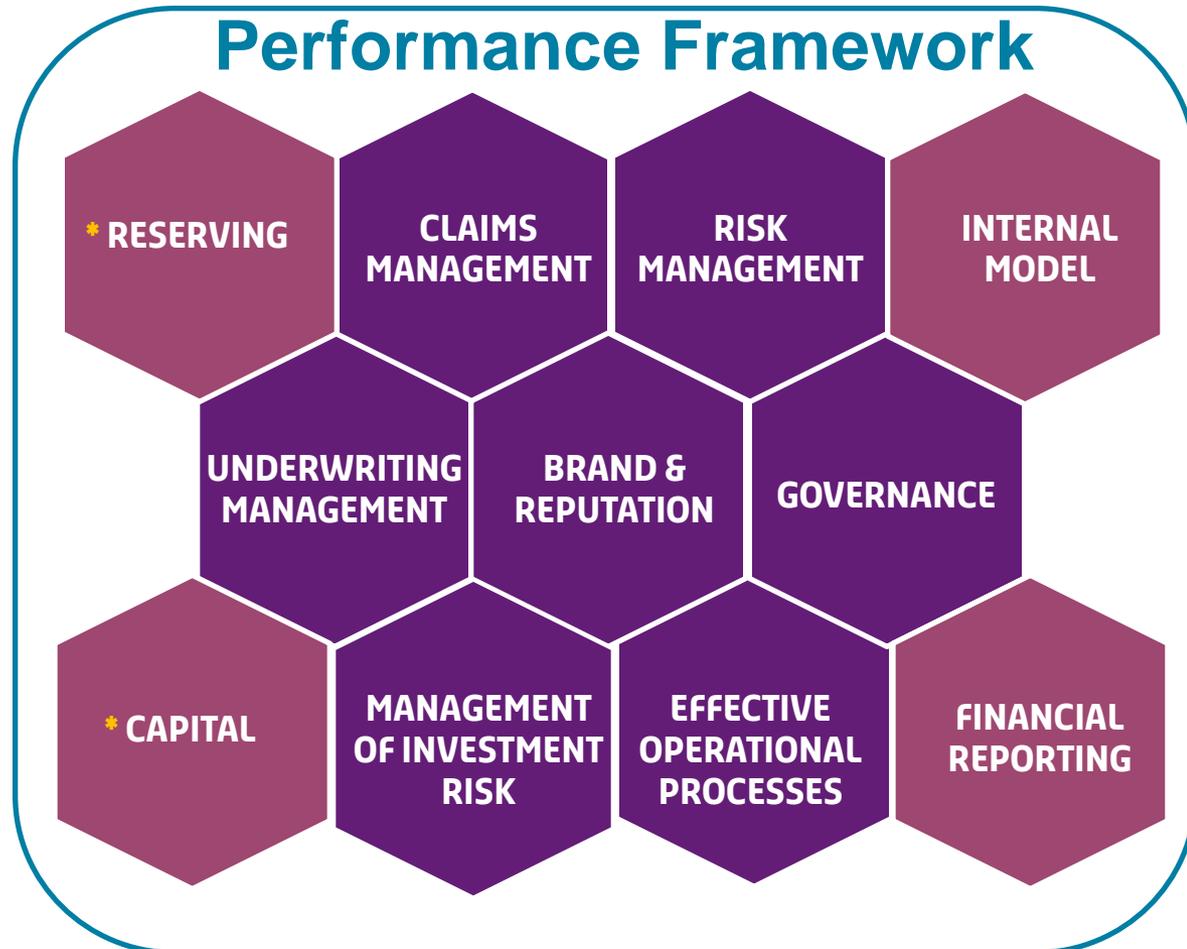
# CURRENT APPROACH NEEDS TO CHANGE TO REFLECT NEW REQUIREMENTS

- ▶ The Performance Framework is an established framework across some aspects of a managing agent's business
- ▶ Solvency II overlaps in some areas and adds requirements in others but currently sits separately as a project.
- ▶ We need to embed Solvency II as business as usual and ensure the Performance Framework is consistent with the new regulatory framework
- ▶ We need to be able to demonstrate comprehensive oversight to Board and FSA to maintain LIM approval.



# SO WHAT IS OUR “TARGET OPERATING MODEL”?

1. Introduce a new set of all encompassing standards with 4 new sets added\*  
– aligned to Solvency II requirements
2. A central assurance function to co-ordinate all review outcomes
3. Keep technical reviews with specialist functions
4. Allocated “Account Manager” per agent
5. Oversight via Standards Assurance Group (SAG)



\*Reserving & ICA Guidance issued for agents to follow but not formally published as “Standards”

# RATIONALE FOR CHANGE

- ▶ Comprehensive management of risk to the central fund with clear accountability
- ▶ Clear framework to demonstrate to the FSA sufficient oversight and governance to maintain LIM approval
- ▶ Risk assurance across all areas will inform the setting and monitoring of Lloyd's risk appetites
- ▶ Opportunity to review existing standards, remove redundancy and align with Solvency II requirements
- ▶ Solvency II Account Manager role has worked well - expertise and market relationships should be maintained
- ▶ Greater clarity for the market and visibility of planned review work
- ▶ Increased efficiency and coordination for Lloyd's and agents

# KEY PRINCIPLES OF PROPOSED APPROACH

1. **One set of “Lloyd’s Standards”** which covers all requirements in a 3 tier approach
  - (i) Regulatory requirements (eg Solvency II, FSA handbook)
  - (ii) Lloyd’s specific requirements
  - (iii) Guidance/best practice
2. **Review responsibilities** to remain in current specialist functions
  - e.g. claims, exposure management, operational risk
3. **A central Risk Assurance Function (RAF)** responsible for co-ordination of review output and conclusions
4. **Agent specific account managers** who are responsible for general oversight of allocated agents and maintaining an overall view
5. **Oversight via Standards Assurance Group (SAG)**
  - Qualitative focus and will work alongside other decision making bodies, eg BPSG

# TARGET OPERATIONAL DATE OF 1 JANUARY 2014

- ▶ Multi strand project across numerous teams to achieve this
- ▶ **Review of current minimum standards** with input from specialist teams
  - two way mapping needed from existing standards to Solvency II and vice versa (*stage 1 of this underway*)
  - revisit existing standards to ensure they align to Solvency II requirements
  - develop new standards to cover missing elements
- ▶ **Define assurance and review processes** required for each set of standards and frequency of review
- ▶ **Develop self assessment templates** for agents to use for each standard
- ▶ **Develop further market guidance** where needed
- ▶ **Market consultation** on standards and self assessment basis via LMA and workshop sessions in 2013
- ▶ In the interim, review activity may be conducted against **current standards**

# WHAT SHOULD WE TAKE FROM SOLVENCY II?

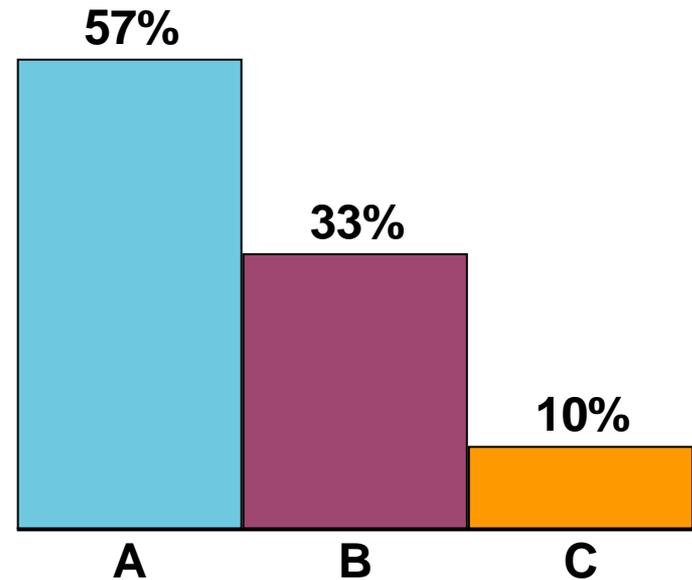
- ▶ **Collaborative** process with **one focal contact** point for all review work builds good working relationships and in depth knowledge of firms
- ▶ **Risk based sample** approach to review work is proportional and focuses efforts on key risks
- ▶ **Clear planning and publication of review work** in advance allows for resource planning on both sides
- ▶ **Workshops** to cover upcoming reviews and outcomes of completed reviews are resource efficient and help set clear expectations
- ▶ Multiple **guidance documents** issued with market input to finished product increases quality of end deliverable and sets minimum requirements
- ▶ **Self assessment** against requirements setting out all evidence available aids review process
- ▶ Robust **Independent Assurance** supports self assessment and allows for less intensive review
- ▶ Building good **working relationships with FSA supervisors** aids early recognition and resolution of issues

# TABLE DISCUSSION – RISK ASSURANCE

- ▶ Do you think the proposed 3 tier approach for the standards is appropriate?
  - if not what would you suggest?
- ▶ Do you have any views on how existing segregation of standards should be changed to reflect Solvency II and new “conduct” requirements?
  - do you agree with or would you change proposed split?
- ▶ What are the key elements you think should be taken from Solvency II work?
  - and which things would you want us to “lose” if any?
- ▶ Do you have any other views/comments/ideas on proposal?

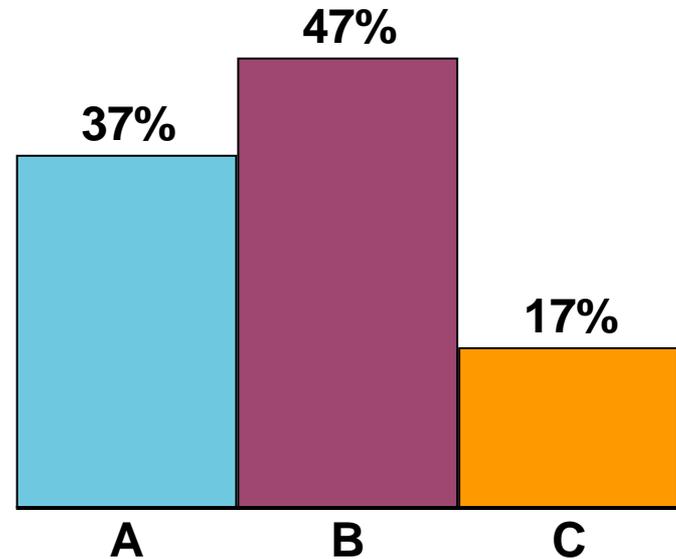
# DO YOU THINK THE PROPOSED 3 TIER APPROACH FOR THE STANDARDS IS APPROPRIATE?

- A. Yes
- B. No
- C. Don't have a view



# DO YOU AGREE WITH PROPOSED SPLIT / GROUPING OF STANDARDS?

- A. Yes
- B. No
- C. Don't have a view



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# NEXT STEPS

- ▶ Slides will be made available on lloyds.com after both sessions
- ▶ 2013 Plan and Guidance will be finalised and issued by 31 January
  - final confirmation on capital dates by end February
- ▶ Next scheduled workshop
  - Use Test 19 & 20 March
  - unallocated dates – please let us know if you'd like other sessions
- ▶ Market consultation sought on risk assurance as work develops
  - Via LMA / working groups and workshop sessions

