



SOLVENCY II & RISK ASSURANCE 2015 PLAN

10 DECEMBER 2014

AGENDA

CONTENTS

- A recap of 2014
- Conclusions from 2014 reviews and ratings in 2015
- 2015 Timetable and Deliverables
- Lloyd's Minimum Standards Framework
- Lloyd's Model Change Process for 2015

RECAP OF THE YEAR

- ▶ SII ratings changed to reflect agents' progress against the full SII tests and standards
- ▶ SAG and CPG worked very closely during 2014
 - SAG meetings directly after CPG meetings to determine SII ratings
 - SAG ratings confirmed as part of CPG approval process
 - prudential measures applied where necessary
- ▶ Extensive PRA review work of sample agents followed by feedback
- ▶ Launch of the new Minimum Standards Framework in July 2014
 - Solvency II requirements embedded into the new minimum standards
- ▶ First Pillar 3 Dry Run

RECAP OF THE YEAR

► Earlier this year we set out areas which would require key focus:

SCR Internal Models which are not SII compliant

- Ongoing model development for review by CPG from July – Sept
- Consideration of prudential measures
- Dependencies
- Assumptions - expert judgement

Pillar 3 Dry Run – Q3 2014

- 1st attempt at Pillar 3 – significant effort required
- Engagement of team(s) who may not have been part of SII programme until now
- Careful resource planning

ORSA

- Lloyd's expects March submissions to demonstrate further development of ORSAs

Actuarial Function Reports

- Agents encouraged to include opinions on Underwriting and Reinsurance for 2014 submission(s)
- Most agents rated currently Red

Model Change

- Updated Lloyd's guidance (Q1 2014) will impact amount of work required for agents on Model Change Policies and Model Change reporting in 2014

Catastrophe risk

- Validation of Cat Risk (modelled AND non-modelled)
- Non-Modelled Cat exposures
- Use of Broker models

RECAP OF THE YEAR

► Good progress seen during 2014:

SCR Internal Models which are not SII compliant



- CPG review of all SCRs from June through to November found many modelling issues to be resolved
- Any remaining / new issues identified which may impact Solvency II readiness fed back to agents
- Expected to rectify by year end 2014

Pillar 3 Dry Run – Q3 2014



- Dry Run completed to a good standard
- Engagement of team(s) who may not have been part of SII programme until now
- Good basis for market preparations for 2015 Quantitative and Qualitative submissions

ORSA



- Improvements seen to ORSAs through the market-wide March submissions plus additional submissions where required
- Some items remain to be addressed

RECAP OF THE YEAR

► Good progress seen during 2014:

Actuarial Function Reports

- Good progress seen through 2014 submissions
- Reviews will continue into 2015

Model Change

- Improvements seen to model change policies during 2014
- Model change reporting in July and September 2014 provided useful data for Lloyd's

Catastrophe risk

- Lloyd's launched a two-year market project starting 1st July 2014 to ensure robust representation of 'non modelled risk' in managing agents' Internal Models

PRA INTERACTION

- ▶ PRA reviews of 30 agents in the sample completed during 2014
- ▶ All feedback letters issued between June to November

KEY THEMES	
Model Validation	<ul style="list-style-type: none"> ➤ Governance & Framework ➤ Dependencies ➤ Assumptions
Governance, Risk & Use	<ul style="list-style-type: none"> ➤ Model Change ➤ Risk Management ➤ Use Test
SCR	<ul style="list-style-type: none"> ➤ Modelling methodologies ➤ 1 year SCR

- ▶ Unlikely to be further PRA review work, except for those agents also in IMAP
- ▶ All issues to be addressed by **year end 2014**
- ▶ Responsibility on Lloyd's to demonstrate to the PRA that issues have been addressed
- ▶ Lloyd's continue to have regular dialogue with PRA on syndicate issues

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CONCLUSIONS OF THE 2014 SII RATINGS

- ▶ All agent SII ratings were confirmed for November Coming into Line
 - 34% - “assessed as being at risk of not being SII compliant by year end”
 - 66% - “assessed as being on track to be SII compliant by year end”
- ▶ Prudential measures applied
- ▶ PRA feedback taken into account
- ▶ All SAG ratings now in “lock-down” until January
- ▶ Significant work required for agents at risk of non-compliance
- ▶ Still work to do for 66% to remain green going in to 2015

REVIEWS OF THE DECEMBER ATTESTATIONS

- ▶ Agent attestations due on 12 December
- ▶ The board's view of Managing Agent SII readiness
- ▶ Evidence of any closed issues
 - ▶ Compelling rationale
 - ▶ Robust evidence
- ▶ Continue to work on any open issues
 - ▶ Expectation of an action plan to address any open items
- ▶ Close liaison with Lloyd's – we want to avoid any surprises
 - ▶ Lloyd's Account Manager responsible for overall SII readiness
 - ▶ MRC point of contact for all modelling and validation issues

REVIEWS AND RATINGS Q1 2015

- ▶ Round of SAG meetings second half of January
- ▶ Ratings will be binary: **Red** or **Green**
- ▶ Ratings will be based on IMAP requirements:
 - ▶ core internal model tests and standards
 - ▶ not driven by ORSA, Actuarial Function Reports, Pillar 3 unless issues are sufficiently material
 - ▶ Any IMAP failure would drive a red rating
- ▶ **Red rating** = 20% capital loading for mid-year Coming into Line
- ▶ Any final remediation for red agents until end of February
- ▶ Lock down of agent ratings in early March
- ▶ April LIM IMAP submission

NEW SYNDICATES OR NEW AGENTS RATINGS

- ▶ New syndicates/ agents allowed up to 24 months to fully build out a Solvency II compliant internal model
- ▶ In this time they are allocated an **Amber** rating
- ▶ No prudential measures applied
- ▶ At the end of the 24 month period a **Red** or **Green** rating will be allocated

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2015 TIMETABLE AND DELIVERABLES

KEY DATES FOR 2015 (ALL DATES PROVISIONAL)

	JAN	FEB	MAR	APR	MAY	JUN	JUL	AUG	SEP	OCT	NOV	DEC
SOLVENCY II QUANTITATIVE SUBMISSIONS	13 Jan Q4 2014 GQD return		5 March SII Balance Sheet @31/12/14 5 March 2015 SCR Re-assessment	2 April TPD @ 31/12/14 9 April Q1 2015 GQD Return 16 April ASR/ AAD including qualitative reporting @31/12/2014 (for compliance with EIOPA guidelines)	29 May Standard Formula SCR		TBA Draft SCR via LCR 9 July Q2 2015 GQD Return		3 Sept SII Balance Sheet @30/6/15 TBA Final SCR via LCR 24 Sept SREP Pillar 3 Dry Run	8 October Q3 2015 GQD return	5 Nov QSR/ QAD @30/09/2015	
SOLVENCY II QUALITATIVE SUBMISSIONS			26 March ORSA Submission 5 March Model Change Report		29 May Actuarial Function Report (Inch Technical Provisions as a minimum)		TBA Voluntary Interim Validation Report TBA (same as SCR date) Model Change Report		TBA Validation Report TBA (same as SCR date) Model Change Report	30 October Actuarial Function Report (Inch RI and Underwriting as a minimum)		18 Dec Board confirmation of status against minimum standards 18 December Model Change Report
RISK ASSURANCE / MINIMUM STANDARDS			31 March MS7 - Validation Self-assessment submission 31 March MS8 - Investment Management Self-assessment submission			30 June MS12 - Operating at Lloyd's Self-assessment submission			30 September MS5 - Scope, change & use Self-assessment submission	TBA MS1 - Underwriting Management Self-assessment submission TBA MS2 - claims Management Self-assessment submission		31 December MS3 - Governance Self-assessment submission
BRIEFINGS	20 January Capital briefing	2 February Director briefing 6 February MS7 & MS8 Self-assessment launch workshop	4 & 6 March	7 & 8 April TBA Conduct Risk workshop	20 May 18 May MS12 Self-assessment launch workshop	8 & 22 June	8 & 10 July 20 & 21 July TBA Conduct Risk workshop	10 August 11 August MS5 Self-assessment launch workshop	30 September 28 September MS1 & 2 Self-assessment launch workshop	19 & 20 October TBA Conduct Risk workshop	10 November 23 & 24 November 9 November MS3 Self-assessment launch workshop	1 & 2 December 7 & 9 December

KEY: Unassigned workshop

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LLOYD'S MINIMUM STANDARDS RE-CAP

- ▶ On 1st July 2014 Lloyd's issued its updated Minimum Standards
- ▶ Year-End SNP statement
 - Extract 8 October email: “exceptions only basis at the end of 2014. This will be via email from the agent SNP to your Risk Assurance account manager. Nil returns would be appreciated.”
- ▶ Consider 2014 Submissions:
 - Minimum Standards Self Assessments
 - SII Attestation

LLOYD'S MINIMUM STANDARDS 2015

▶ New Minimum Standards for first Self Assessments:

- MS3 – Governance
- MS5 – Scope, Change and Use
- MS7 – Validation
- MS8 – Investment Management
- MS12 – Operating at Lloyds.

▶ Annual Self-Assessment reviews

▶ Observations from 2014 Self-Assessment Reviews:

- MS1 – Underwriting Management
- MS2 – Claims Management

LLOYD'S MINIMUM STANDARDS TIMETABLE

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RISK ASSURANCE / MINIMUM STANDARDS			<p>31 March MS7 - Validation Self-assessment submission</p> <p>31 March MS8 - Investment Management Self-assessment submission</p>			<p>30 June MS12 - Operating at Lloyd's Self-assessment submission</p>			<p>30 September MS12 - Scope, change & use Self-assessment submission</p>	<p>TBA MS1 - Underwriting Management Self-assessment submission</p> <p>TBA MS2 - claims Management Self-assessment submission</p>		<p>31 December MS3 - Governance Self-assessment submission</p>
WORKSHOPS		<p>6 February MS7 & MS8 Self-assessment launch workshop</p>		<p>TBA Conduct Risk workshop</p>	<p>18 May MS12 Self-assessment launch workshop</p>		<p>TBA Conduct Risk workshop</p>	<p>11 August MS 5 Self-assessment launch workshop</p>	<p>28 September MS 1 & 2 Self-assessment launch workshop</p>	<p>TBA Conduct Risk workshop</p>	<p>9 November MS 3 Self-assessment launch workshop</p>	

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LLOYD'S MODEL CHANGE PROCESS FOR 2015

- ▶ From 2015 Lloyd's operating a live model change approval process
 - Pre-approval of major model changes by SAG
 - Includes where combination of minor changes results in a major change
 - Model change quarterly reporting
 - 8 week approval period
- ▶ Lloyd's expects agents to actively discuss planned changes with their Account Manager
- ▶ Lloyd's will use existing processes where relevant eg SBF & SCR submissions

LLOYD'S MODEL CHANGE PROCESS FOR 2015

- ▶ Model Platform Changes
 - Automatically a major model change
 - Early engagement with Lloyd's is key
 - Transition plan agreed with Lloyd's
 - Parallel running of models
- ▶ Standard templates
 - Pre-approval of major changes
 - Quarterly Model Change reporting

TEMPLATE FOR THE PRE-APPROVAL OF MAJOR MODEL CHANGE

- ▶ Change type
 - Definition
 - Qualitative/ Quantitative
 - Combination of minor changes?
- ▶ Impact of the change
 - Description and rationale
 - Implication on the design and operation of the model
 - Validation undertaken
 - Evidence to support change
 - Quantitative impact on SCR
 - Ultimate SCR
 - 1 year SCR
- ▶ What Internal approval has taken place

WHAT HAPPENS NEXT?

- ▶ Slides will be made available on lloyds.com
- ▶ Guidance and timetable will be published formally within the next week

