



Senior Nominated Person (SNP) Briefing

Tuesday 25 February 2014

Agenda

- ▶ Introduction
- ▶ Lloyd's decision making: SAG & CPG
- ▶ The role of the SNP
- ▶ Solvency II in 2014 and beyond
- ▶ Minimum standards refresh

Introduction

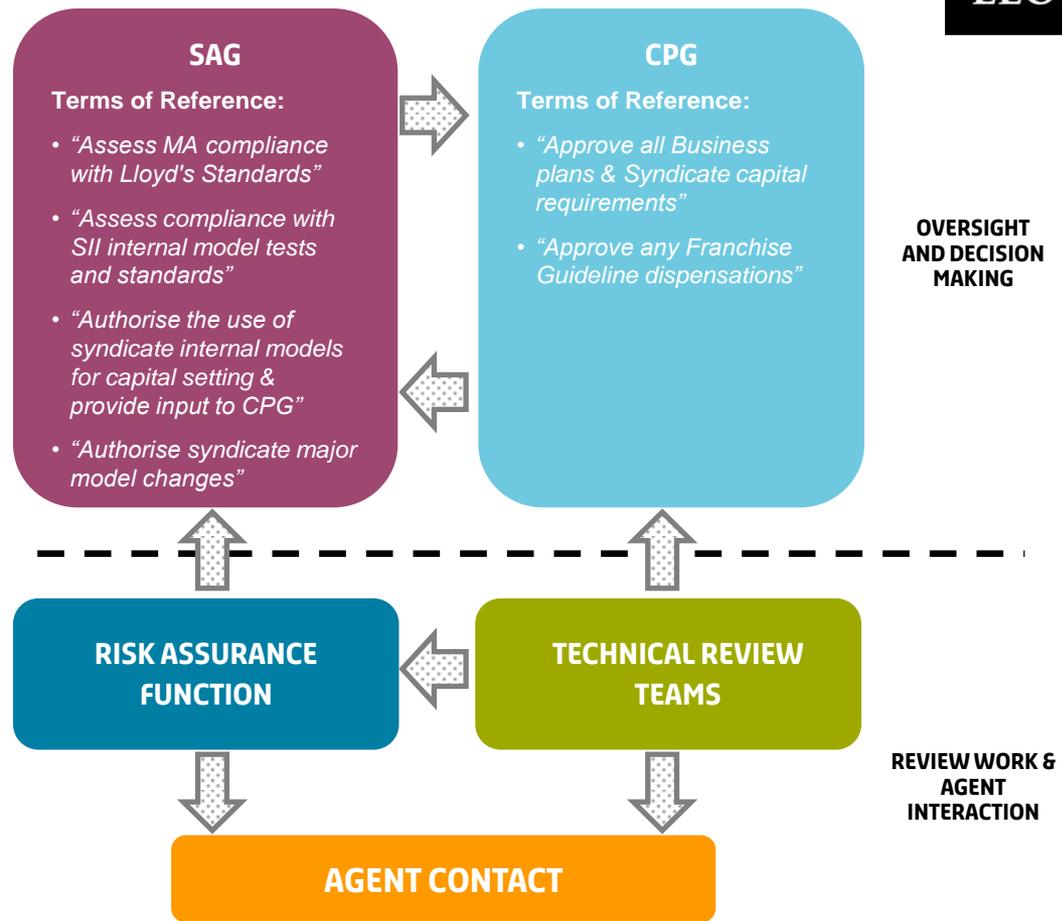
- ▶ Solvency II implementation date of January 2016
- ▶ Lloyd's IMAP submission expected to be made April 2015
- ▶ A significant refocus of efforts and resource is expected on Solvency II during 2014
 - Both for managing agents and for Lloyd's
- ▶ Lloyd's programme also scaling up e.g. Solvency II Steering Group has re-formed
- ▶ Lloyd's minimum standards refresh underway and revised standards due for launch 1 July 2014
- ▶ SAG and CPG fully operational

SNP role crucial in all of the above

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- ▶ Minimum standards refresh

Standards Assurance Group: Background



- ▶ Standard Assurance Group (SAG) established since 1 July 2013
- ▶ Replaced DROP in overseeing Solvency II assessment against test and standards
- ▶ Also considers oversight of Agent adherence to Minimum Standards

Role of the Standards Assurance Group (SAG)

▶ Key responsibilities:

- authorise the use of Syndicate internal models
- oversee and agree conclusions made on Managing Agent compliance with Lloyd's Minimum Standards
- make recommendations on additional agent review work as required/appropriate to address agent or thematic concerns
- agree agent status / ratings for input to SRC on Solvency II
- make recommendations for consideration by the CPG on prudential measures

▶ Membership from across the Corporation:

- **Olly Reeves, Chairman** (Head of Risk Management)
- **Neil Griffiths** (Governance, Risk Management & Operational Processes)
- **Jerome Kirk** (Reserving, Capital & Actuarial)
- **Liz Ward** (PMD Standards Review)
- **Paul Brady** (Legal)
- **Alan Westrip** (LIM Team)
- Secretarial support

Standards Assurance Group (SAG) in 2014

► Key activities in 2014:

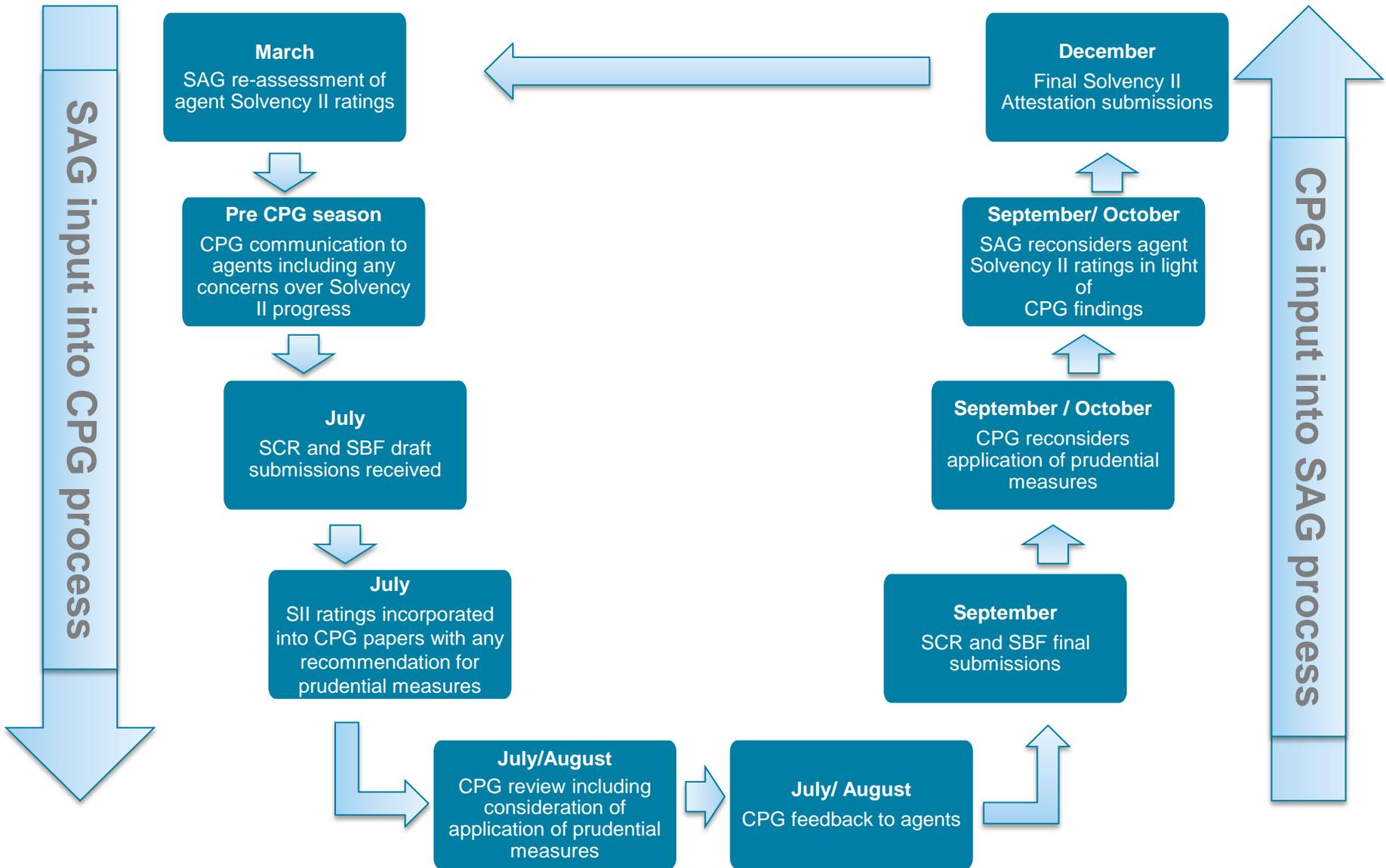
- Review of the managing agent attestations in relation to their Solvency II preparedness
- Review of overall managing agent ratings
- 2014 planning in relation to Solvency II and Minimum Standard review activity
- Development of the Assessment Framework for the revised Minimum Standards
- Oversight and coordination of the Minimum Standards refresh project
- Providing a SAG view of an agent to inform CPG discussions

Role of the Capital & Planning Group (CPG)

- ▶ To approve all Business Plans and Syndicate Capital requirements in a consistent and fair manner by appropriate deadlines and meeting Lloyd's agreed prudential and business objectives
 - provide clear guidance for the Market
 - offer a joined up review process with clear points of contact
 - engage with Managing Agents earlier to provide Lloyd's view
 - ensure CEOs of MAs are clear on Lloyd's view throughout
 - use “virtual teams”
 - enhance MI to support decisions
 - provide written feedback at specified points during the review
- ▶ The key goals of early feedback / engagement were to
 - avoid late shocks
 - reduce the number of syndicate loadings

...which was broadly successful in 2013!

SAG and CPG interaction in 2014



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Role of the SNP

The SNP should be a board member, or a member of senior management who regularly reports to the Board on compliance with Solvency II /Lloyd's Standards

- ✓ To be the key liaison point at the agent on Solvency II and standards related issues.
- ✓ To ensure appropriately robust processes exist in relation to adherence to Lloyd's standards
- ✓ Issues raised by SAG are addressed in a timely manner
- ✓ Issues raised by SAG are escalated to the CEO and/or NEDs as required
- ✓ Documentation is submitted and approved as required
- ✗ To be an expert on all Lloyd's standards
- ✗ To undertake and complete all required Lloyd's review activity
- ✗ To be solely responsible for the adherence to Lloyd's standards

2014 Plan and areas of SNP involvement

	JANUARY	FEBRUARY	MARCH	APRIL	MAY	JUNE	JULY	AUGUST	SEPTEMBER	OCTOBER	NOVEMBER	DECEMBER
SOLVENCY II QUANTITATIVE SUBMISSIONS	14 January Q4 2013 GQD return		6 March SII Balance Sheet @31/12/13 6 March 2014 SCR Re- assessment 20 March LIM Asset Data @31/12/13	3 April TPD @ 31/12/13 10 April Q1 2014 GQD Return	30 May Standard Formula SCR		(provisional) 3 July Draft SCR via LCR 10 July Q2 2014 GQD Return		4 Sept SII Balance Sheet @30/6/14 (provisional) 16 Sept Final SCR via LCR 25 Sept SREP Pillar 3 Dry Run	9 October Q3 2014 GQD return 30 October LIM Asset Data @30/09/14		
SOLVENCY II QUALITATIVE SUBMISSIONS			27 March ORSA Submission	1 April to 30 May Actuarial Function Report		27 June Evidence Template Submissions	(provisional) 3 July Voluntary Interim Validation (provisional) 3 July Model Change Policy & Report		(provisional) 16 Sept Validation Report (provisional) 16 Sept Model Change Report			12 Dec Board confirmation of SII status
SOLVENCY II THEMATIC REVIEW		P&L Attribution & Backtesting								Use test review		
RISK ASSURANCE/ MINIMUM STANDARDS										PMD Underwriting & Claims Standards Self Assessment		

Areas of SNP involvement - Examples

27 March
ORSA Submission

- Awareness of submission
- Comfort that appropriate review and approval process has been followed
- Ensure timely submission to Lloyd's
- Queries directed at Risk Management function, awareness from SNP.

October
PMD
Underwriting & Claims
Standards Self
Assessment

- Sign off of submission in conjunction with Underwriting/Claims Director
- Comfort that appropriate process, review and approval has been followed to complete submission
- Ensure timely submission to Lloyd's
- Queries directed at Director of Underwriting and Claims, awareness from SNP

12 Dec
Board confirmation of
SII status

- Sign off of submission
- Key role in obtaining collective Board approval
- Ensure timely submission to Lloyd's
- Key point of contact for any queries

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Solvency II implementation imminent

- ▶ All managing agent SNPs and CEOs received formal letters from Luke Savage with the outcome of the 2013 year end SAG review
- ▶ Letter included a schedule setting out progress against the full tests and standards for all areas of the Lloyd's SII programme
 - Note: Lloyd's view on agents' progress in any one area is subject to change with ongoing review work
- ▶ SNPs to submit an action plan by 28 February
 - Action plans will be reviewed by Account Managers during March

March SAG reviews

<p>RED</p>	<p>A significant number of, or significant materiality of, areas outstanding and agent is unable to demonstrate that they will be able to meet the tests and standards during 2014</p> <p>At immediate risk of prudential measures being applied</p>
<p>AMBER</p>	<p>A number of areas outstanding, or material areas outstanding, and agent is at risk of not meeting tests and standards unless remedial action is taken</p> <p>At risk of prudential measures being applied if remedial action is not taken and evidenced</p>
<p>GREEN (ON TRACK)</p>	<p>Agent will meet tests and standards provided action plan is adhered to and progress can be evidenced</p> <p>No current risk of prudential measures being applied</p>
<p>BLUE FLAG </p>	<p>Agent meets all full tests and standards</p>

▶ SAG meetings through March to discuss and agree revised ratings for **all** agents

▶ New ratings will be determined by:

- Number of gaps
- Materiality of gaps
- Credibility of plan

- ▶ No agent yet meets full tests and standards, i.e. no “Blue Flag” agents
- ▶ Green rating will require agents to have made significant progress towards compliance and have a robust action plan
- ▶ Agent ratings will be under continual review during 2014

Solvency II – key areas of focus

SCR Internal Models which are not SII compliant

- Link between SCR loading and Solvency II compliance considered
- Ongoing model development for review by CPG from July – Sept
- 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

Standard Formula SCR

- Agent calculation is new for 2014

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

Some more information on Pillar 3...

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

- ▶ Four new Solvency II returns in Core Market Returns (CMR):
 - Currently available for UAT
 - Guidance on completion of Solvency II CMRs available on lloyds.com
- ▶ Pillar 3 Dry Run deadline is 25 September 2014
 - Agent requirements for 2014 published with 2014 Plan and Guidance Notes
 - Workshops scheduled for 3 & 4 June 2014
- ▶ No qualitative reporting dry run
 - Detailed 'worked example' will be provided by Summer 2014

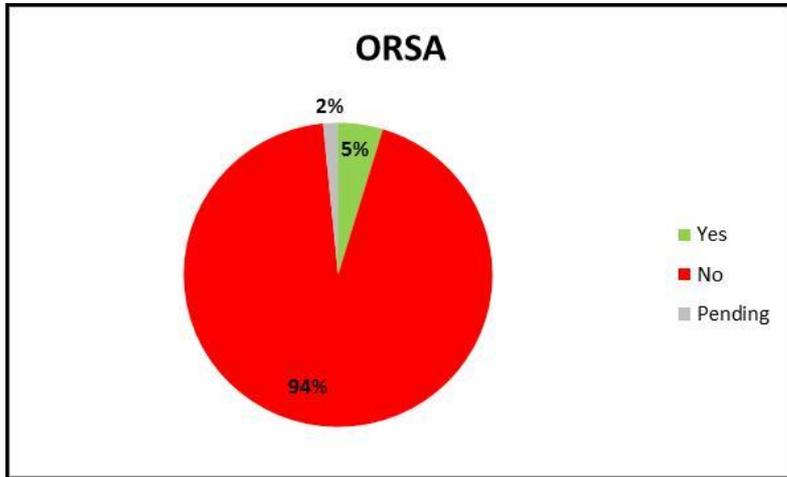
Some more information on Cat risk...

Catastrophe risk

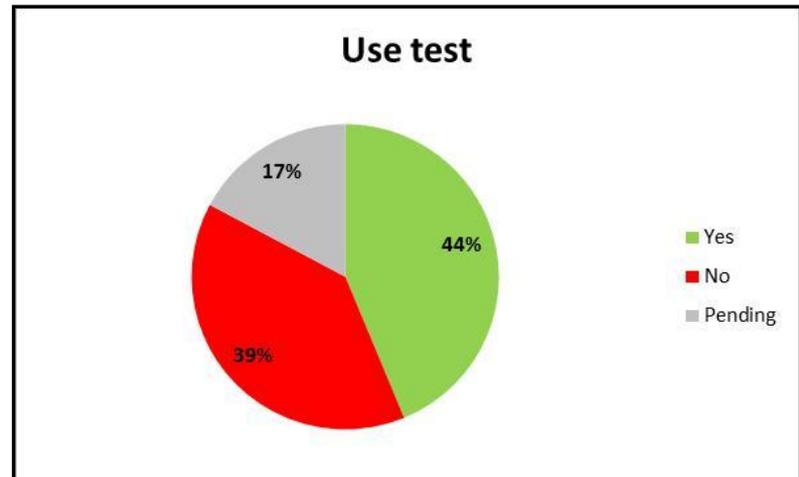
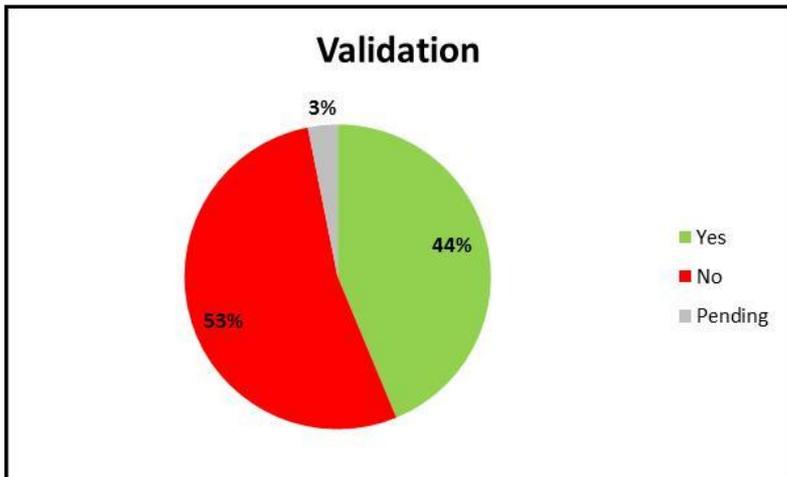
- Validation of Cat Risk (modelled AND non-modelled)
- Non-Modelled Cat exposures
- Use of Broker models

- ▶ PRA will re-visit all agents who have had PRA/ FSA feedback about catastrophe risk
- ▶ A special paper on managing non-modelled risks is due to be published in Feb/ March by the ABI (co-written by Lloyd's)
- ▶ Validation of all cat risk (modelled and non-modelled) is up to date, complete and evidenced.
- ▶ Agents should be able to demonstrate that:
 - risk rankings for catastrophe are up to date
 - validation of cat risk within the internal model includes any changes since Dec 2012
 - all process documentation, and evidence of sign-off, includes any changes since Dec 2012
 - the validation report clearly and explicitly covers cat risk, including re-validation of approach as necessary
- ▶ Contact Lloyd's Exposure Management team

But don't forget about...



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



Interaction with the PRA

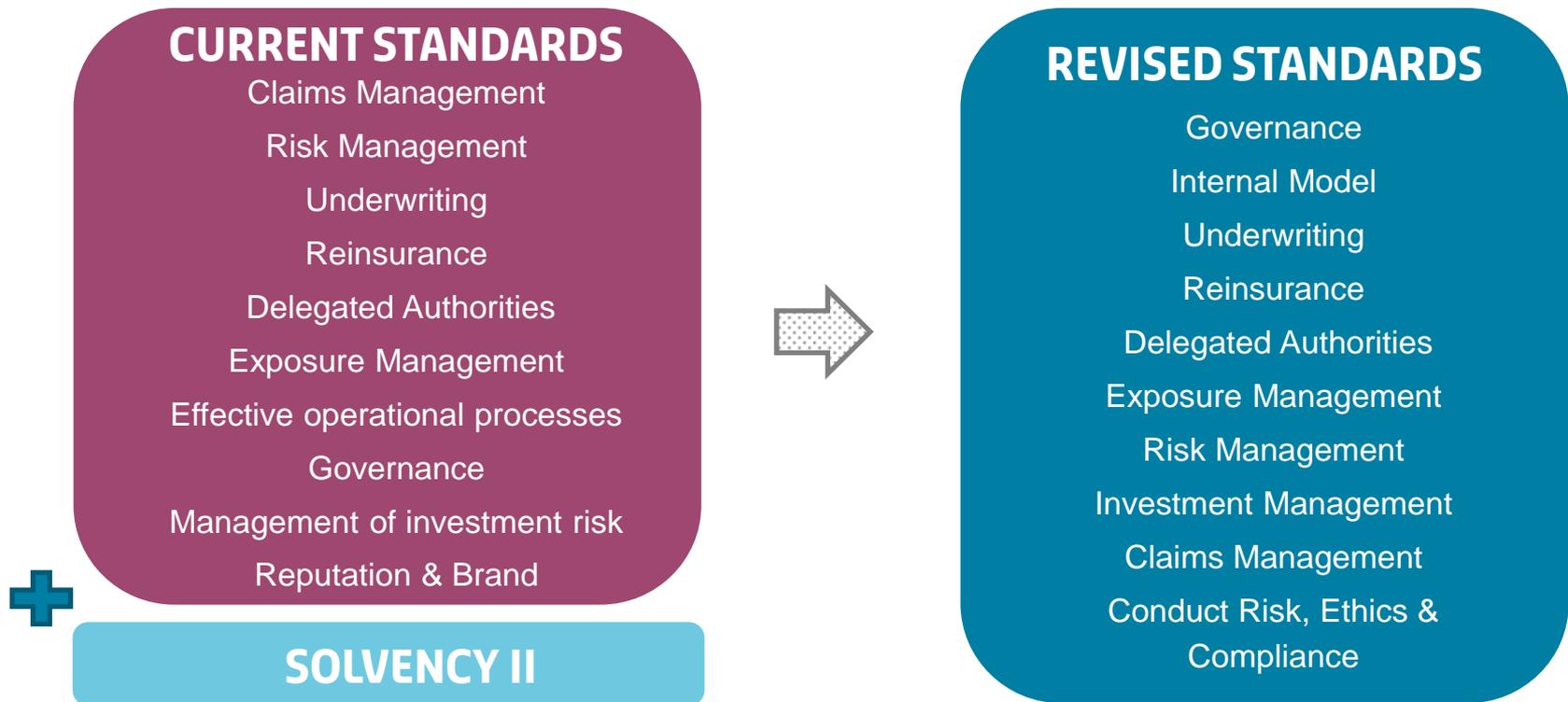
- ▶ Increased interaction in the lead up to the LIM IMAP submission in April 2015
- ▶ Lloyd's is subject to many of the same reviews by the PRA as managing agents are from Lloyd's, for example:
 - Use Test interviews
 - ORSA
 - Validation Report
 - Model Change Policy
- ▶ Syndicate workstream is a key element of the wider Lloyd's Solvency II programme
 - Regular (monthly) interaction with the PRA on agent progress
 - Increasing focus from the PRA on agent ratings
- ▶ Agents should also expect increased interaction with the PRA as they follow up on feedback letters

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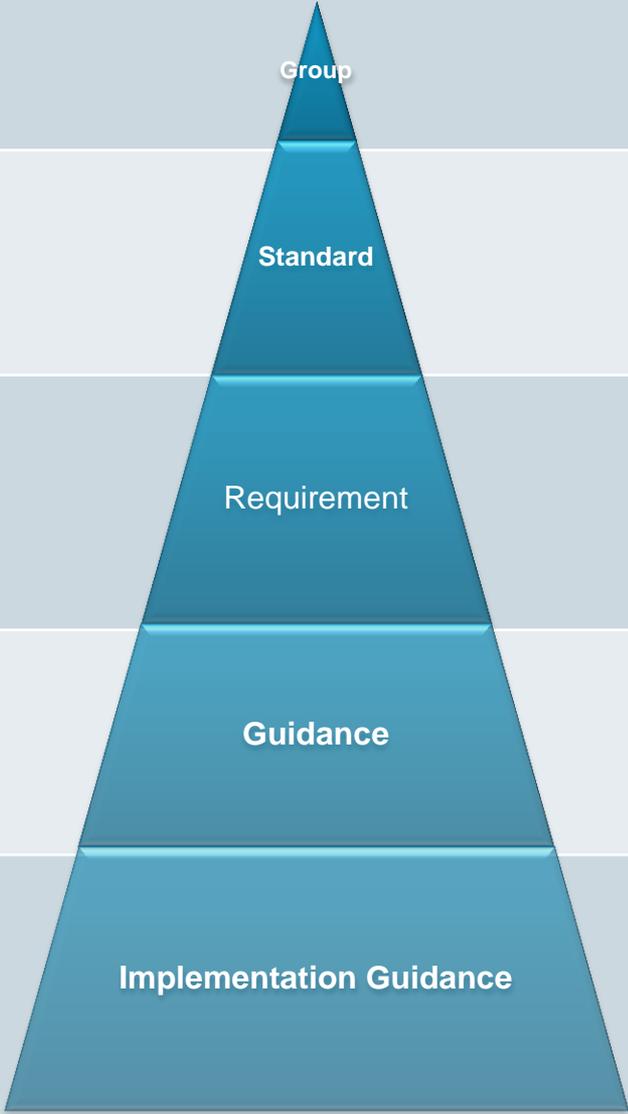
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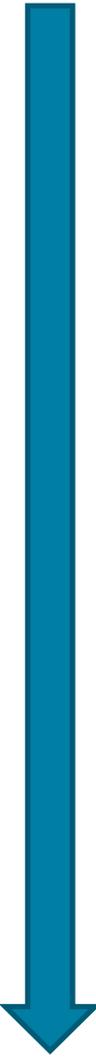
Why are we refreshing the standards?

- ▶ One set of standards covering all requirements for Managing Agents
 - A clear framework within which all Managing Agents are expected to operate
 - Consistency in interpretation, presentation and publication
 - Alignment to new Solvency II and PRA requirements



Structure of new standards

LEVEL	PURPOSE	EXAMPLE
 <p>Group</p>	<ul style="list-style-type: none"> Groups of standards, generally aligned to Lloyd's technical review teams 	<p>Governance</p>
<p>Standard</p>	<ul style="list-style-type: none"> A brief statement of capability or level of conduct required. It is envisaged that these standards will not change significantly over time. 	<p>"Managing agents shall have an effective risk management function"</p>
<p>Requirement</p>	<ul style="list-style-type: none"> A sub-set of requirements that specifies key areas that must be addressed in meeting the standard. Lloyds will seek positive assurance that each requirements has been met. Envisaged that requirements will evolve over time without the over-riding standard changing. 	<p>"The tasks of the risk management function shall include: monitoring the risk management system"</p>
<p>Guidance</p>	<ul style="list-style-type: none"> Explanation of how Lloyds will assess whether standards have been met. Aimed primarily at compliance & project managers. It is envisaged that this document may change over time in line with changes in requirements. 	<p>Governance Standards Guidance</p>
<p>Implementation Guidance</p>	<ul style="list-style-type: none"> Practical advice and examples showing how agents can address selected problems. Not primarily aimed at helping to meet Lloyd's standards, but it is consistent with them. Aimed at the relevant subject matter expert. It is expected that this guidance will continue to develop as practises & tools evolve. 	<p>Model Change Report Guidance (March 2013)</p>



GROUPING
HIGH LEVEL SUBJECT
AREA

Governance

SUBJECT
BRIEF DESCRIPTION OF
THE SUBJECT OF THE
REQUIREMENT

Effective System of Governance

STANDARD

Managing Agents shall have in place an effective system of governance which provides for sound and prudent management of the business.

REQUIREMENT

The system of governance shall:

- be proportionate to the nature, scale and complexity of the operations of the business
- provide for effective cooperation, internal reporting and communication of information at all relevant levels of the business
- include compliance with the requirements laid down in the SII Framework directive, Articles 42 to 49

Update – standards progress

Standard	Standard ready for consultation	Guidance ready for consultation	Sub-Group agreed	Sub-Group review complete	RAC review completed	Issued to market	Market review complete	Governance review complete	Published on Lloyds.com
Governance									
Internal Model (Actuarial)									
Internal Model (Non Actuarial)									
Underwriting (Controls , Strategy & Planning)									
Underwriting (Pricing)									
Reinsurance									
Delegated Authority									
Exposure Management									
Risk Management									
Investment Management									
Claims Management									
Conduct Risk									

Questions...?

